

Seneca Foods Corporation



2006 Annual Report

Financial Highlights

Years ended March 31,	2006	2005	Increase (Decrease)
Net sales	\$ 883,823,000	\$ 864,274,000	2.3%
Net earnings	21,993,000	7,907,000	178.1
Stockholders' equity	217,779,000	195,809,000	11.2
Diluted earnings per share	\$ 1.96	\$ 0.70	180.0
Total Stockholders' equity per equivalent common share	19.46	17.49	11.2

Description of Business

Seneca Foods Corporation conducts its business almost entirely in food processing, which currently contributes about 99% of the Company's sales. Canned vegetables represent 88% of the food processing volume. Frozen vegetables represent 9% of food processing volume. Fruit products account for the remaining 3% of food processing sales.

Approximately 10% of the Company's food products are packed under its own brands including Seneca®, Libby's®,

Aunt Nellie's Farm Kitchen®, Stokely's®, Read®, Festal®, and Diamond A®. About 46% of the processed foods are packed under private labels and 17% are sold to institutional food distributors. The remaining 27% are sold under an Alliance Agreement with General Mills Operations, Inc.

Marion, New York
June 16, 2006

To Our Shareholders

We are pleased to report that fiscal year 2006 was the most profitable in our company's 57-year history. The company earned \$21,993,000, or \$1.96 per share, in fiscal year 2006 versus \$7,907,000, or \$.70 per share, in fiscal year 2005. This earnings performance was on sales of \$883,823,000, up 2.3% over prior year's sales of \$864,274,000. The improved operating performance in the very competitive and challenging canned vegetable industry is the result of several factors including very good growing conditions, expected synergies from our most recent acquisition, and an improved mix of sales resulting in higher gross margins.

The summer and fall of 2005 was one of the better growing seasons in memory. In several commodities that Seneca contracts and harvests, we had near-record field yields—combined with strong production plant efficiencies—which led to favorable overall costs. It took a frost at the end of September to end what would have been the biggest pack on record and Seneca still processed about 7% more corn than was budgeted. Our pumpkin crop was even stronger and by the time we were forced to stop harvesting due to the cold weather, we had packed far more product than would normally be the case for the acres that we planted. There is an old farmer's adage that the best year is the one against all future years are measured—but in our case, we will be hard pressed to top last season's wonderful growing conditions.

Having said all that, great weather is not the only reason why our earnings performance was strong. Over the past few years, Seneca has worked hard to integrate the Chiquita Processed Foods acquisition, which was completed just prior to the 2003 crop season. We have invested millions of dollars in new harvesting and processing equipment, and simultaneously closed several plants that did not fit in the company's post-acquisition production plans. Our 21 remaining production plants were able to focus on operational issues without the distraction of integrating the acquisition. This focus resulted in lower overhead spending and overall improved plant efficiencies. The plants' successes were in spite of much higher utility costs due to the spike in the natural gas market during the production season.

Our distribution strategy of building warehouses at our production facilities paid off with lower distribution costs despite much higher fuel prices. Since the acquisition, the company has built over 700,000 square feet of warehousing to store our vegetable inventories in order to minimize the handling of our products. During the same period, we were able to reduce case and label costs through major investments in new labeling and material handling equipment.

Also, in the past two years, we invested over \$18 million in our can manufacturing operations. This investment has allowed us to increase plant capacity to absorb the volume from the acquisition as well as reduce the amount of steel used in making cans and ends. We remain the largest self manufacturer of steel cans in America.

On the quality side of our business, we recorded a 35% reduction in consumer complaints year-over-year due, in part, to our multi-million dollar investment in the latest technologies available to clean and sort our produce as it comes in from the field. In addition, our field department is working with our grower partners on environmental sustainability issues through integrated pest management and crop rotation. Seneca is also participating in the growing market for organic products with a line of branded and private label canned organic vegetables.

Our sales this past year to our Alliance partner, General Mills, were up over the prior year as the bountiful pack season also impacted our production and subsequent sale of the Green Giant pack to General Mills. This was offset somewhat by the reduction in the asparagus pack as this represented the last year that Seneca produced the Green Giant asparagus spears. General Mills decided to move their production offshore for cost reasons and unfortunately we had to shut down our Dayton, Washington facility after last summer's harvest.

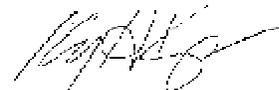
Our snack chip business had an excellent year in that sales finally exceeded its levels of three years ago as the low-carbohydrate diet fad ended. Our plant in Yakima, Washington is unique in the snack chip industry with its vacuum frying system, in which it produces our market-leading Seneca brand apple chips as well as high-quality potato chip products for other snack food companies—all of which contain 30-40% less fat due to our unique technology.

In looking to the future, we must recognize that we remain essentially a commodity business where Mother Nature plays a big role in our annual performance. In fact, one of the outcomes of last year's excellent harvest is that the industry is now wrestling with higher-than-normal canned vegetable inventory levels. We expect annual sales to be lower next year due, in part, to a reduction in sales to General Mills as they adjust inventory levels. In addition, we will no longer be producing Green Giant asparagus. Lastly, selling prices in the industry have declined due to the heavy inventory positions.

In spite of these ongoing challenges, we are enthused about Seneca's prospects. We will address this coming year's challenges just as we have in the past, with a dedicated focus on managing costs and investing in our future. Our strong leadership position in our industry, our loyal and experienced people, and our modern production facilities position Seneca for long-term success.



Chairman



President & Chief Executive Officer

Five Year Selected Financial Data

Summary of Operations and Financial Condition

(In thousands of dollars, except per share data)

Years ended March 31,	2006	2005	2004(a)	2003	2002
Net sales	\$883,823	\$864,274	\$890,850	\$644,379	\$651,075
Operating earnings before interest and other expense (income), net	\$ 52,357	\$ 24,868	\$ 36,476	\$ 33,035	\$ 20,406
Net earnings	21,993	7,907	12,941	9,050	1,140
Basic earnings per common share	1.97	.71	1.18	.89	.11
Diluted earnings per common share	1.96	.70	1.17	.88	.11
Working capital	\$229,510	\$205,430	\$187,764	\$172,382	\$163,606
Inventories	307,292	294,470	270,283	141,649	181,835
Net property, plant, and equipment	148,501	163,290	181,907	132,969	155,189
Total assets	523,666	524,495	533,903	379,540	403,576
Long-term debt and capital lease obligations	142,586	154,125	160,987	133,337	156,100
Stockholders' equity	217,779	195,809	190,249	159,364	151,123
Additions to property, plant, and equipment	\$ 11,906	\$ 14,415	\$ 23,109	\$ 6,832	\$ 13,423
Interest expense, net	15,784	16,592	16,135	13,757	17,441
Net earnings/average equity	10.6%	4.1%	7.4%	5.8%	0.8%
Earnings before taxes/sales	4.0%	1.4%	2.3%	2.3%	0.3%
Net earnings/sales	2.5%	0.9%	1.5%	1.4%	0.2%
Long-term debt/equity	65%	79%	85%	84%	103%
Current ratio	2.6:1	2.3:1	2.2:1	3.4:1	3.0:1
Stockholders' equity per common share	\$ 23.89	\$ 20.77	\$ 19.97	\$ 17.64	\$ 16.46
Class A National Market System closing price range	21.00-15.51	20.00-16.75	21.97-16.20	18.75-10.75	14.75-11.50
Class B National Market System closing price range	20.77-16.00	19.45-16.99	22.88-16.85	18.38-12.75	14.78-12.00
Common cash dividends declared per share	-	-	-	-	-
Price earnings ratio	10.1	23.8	16.0	13.6	84.3

(a) The fiscal 2004 financial results include ten months of operating activity related to the Chiquita Processed Foods acquisition (See Note 2, Acquisition).

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

OVERVIEW

Our Business

Seneca Foods is the world's leading producer and distributor of canned vegetables. Canned vegetables are sold nationwide in all channels serving retail markets, certain export markets, the food service industry, and other food processors. Canned vegetables represent 88% of the Company's sales. The Company maintains a number one share in the private label, food service and export canned vegetable markets; and a number three position in the branded canned vegetable market. Our Company also supplies canned and frozen vegetable products to General Mills Operations, Inc. ("GMOI") under an Alliance Agreement. In addition, our Company is the supplier of frozen vegetable products principally to the food service industry, and fruit and snack chip products principally serving retail markets and other food processors.

Currently, our business strategies are designed to maintain our market share and enhance our sales and margins and include: (1) position the Company as the low-cost, high quality producer of canned vegetables through the elimination of costs from our supply chain and investment in state-of-the-art production and logistical technology; (2) drive growth in earnings through the use of cash flow to de-leverage the balance sheet; and (3) focus on our growth segments to capitalize on their higher expected returns.

The Acquisition

On May 27, 2003, the Company completed its acquisition of 100% of the membership interest in Chiquita Processed Foods, L.L.C. ("CPF") from Chiquita Brands International, Inc. The rationale for the acquisition was twofold: (1) strengthen the Company's market position in the canned vegetable segment; and (2) improve the Company's cost structure through the realization of cost savings by eliminating duplicative functions and combining the purchasing power of the two companies. The purchase price totaled \$126.1 million plus the assumption of certain liabilities. This acquisition was financed with cash, proceeds from a new \$200.0 million revolving credit facility, and \$16.1 million of the Company's Participating Convertible Preferred Stock. The Preferred Stock is convertible into the Company's Class A Common Stock on a one-for-one basis subject to antidilution adjustments. The Preferred Stock was valued at \$16.60 per share based on the market value of the Class A Common Stock at the time the acquisition was announced.

Restructuring

After a comprehensive review of our production capacities following the CPF acquisition, the Company completed a plant restructuring program in 2005 resulting in a restructuring charge of \$7.7 million. The restructuring charge consisted of a non-cash impairment charge of \$7.0 million and a cash severance charge of \$0.7 million which are included in Plant Restructuring in the

Consolidated Statement of Net Earnings. This restructuring program principally involved the closure of three processing facilities including a green bean plant in upstate New York and corn plants in Wisconsin and Washington. In addition, the Company restructured the newly acquired Payette, Idaho facility through the removal of canned meat production to focus exclusively on dry beans. The rationalization of the Company's productive capacity: 1) improved the Company's overall cost structure and competitive position; 2) addressed the excess capacity situation arising from the recent acquisition of CPF; and 3) mitigated the effect of inflationary pressures on the Company's raw material inputs such as steel and fuel. During 2006, the non-cash impairment charge was increased by \$0.2 million related to the green bean plant in New York.

The closure of the Washington corn processing facility coincided with an amendment to the Alliance Agreement with GMOI. Under the above amendment, the Blue Earth, Minnesota facility was removed from the Alliance Agreement due to a reduction in GMOI volume requirements and will be operated by the Company as a non-Alliance facility. Additionally, GMOI agreed to reimburse the Company in the future for remaining lease and depreciation costs at the Blue Earth facility which, on a net present value basis, approximate the closure costs associated with the Washington facility.

With the closure of the Washington corn processing facility in the fall of 2004, the Company's labeling and warehousing requirements at the Salem, Oregon leased distribution facility were dramatically reduced. In 2006, the Company announced the phase out of the Salem labeling operation which resulted in a restructuring charge of \$1.8 million consisting of a provision for future lease payments of \$1.3 million, a cash severance charge of \$0.4 million, and a non-cash impairment charge of \$0.1 million. The Company intends to use a portion of the facility for warehousing and will attempt to sublease the remaining unutilized portion of the facility until the February 2008 expiration of the lease.

The fiscal 2006 asparagus harvest, completed in the first quarter, represented a partial pack as GMOI was in process of moving the production of asparagus offshore from the Dayton, Washington manufacturing facility. Fiscal 2006 asparagus sales to GMOI totaled \$19.3 million. As fiscal 2006 represents the final year of operation for the Dayton, Washington facility, the Company and GMOI have negotiated a definitive agreement related to the closure of this facility. Under the terms of the agreement, any costs incurred by the Company related to the asparagus production prior to March 31, 2006 will be paid by GMOI. The Company shall retain ownership of the real estate associated with the Dayton facility. In addition, the manufacturing equipment of the Dayton facility shall either be conveyed to GMOI, redeployed by the Company, or salvaged. Lastly, GMOI reduced the principal balance of the secured subordinated promissory note by \$0.5 million to \$42.6 million, which represents the net book value of the equipment to be conveyed to GMOI or salvaged.

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

Divestitures

The Company sold three former Chiquita Processed Foods plants and related assets to Lakeside Foods, Inc. on June 17, 2003. The Company sold one additional plant of Chiquita Processed Foods and related assets to Lakeside Foods, Inc. on August 6, 2003. The aforementioned divestitures to Lakeside Foods generated \$46.0 million in cash proceeds, which was used to pay down debt. The Company sold additional plant locations and related assets that were previously closed by Chiquita Processed Foods and designated as assets held for sale during 2005 and 2004, generating \$1.6 million and \$2.5 million, respectively, in additional proceeds used for debt repayment.

During 2006, the Company sold the previously closed corn processing facility in Washington for \$0.5 million in cash and a \$3.6 million note which carries an interest rate of 8% and is due in full on May 14, 2007. This note is secured by a mortgage on the property. The Company accounted for the sale under the installment method. During the first quarter of 2006, \$0.4 million of the gain was included in Other Expense (Income), net and an additional \$2.8 million of the gain on this sale was deferred in Other Long-Term Liabilities.

During 2006, the Company sold a warehouse location in Oregon, which resulted in cash proceeds of \$0.6 million and a pre-tax gain of \$0.5 million. This gain was included in Other Expense (Income), net.

Liquidity and Capital Resources

The Company's primary cash requirements are to make payments on our debt, finance seasonal working capital needs and to make capital expenditures. Internally generated funds and amounts under our revolving credit facility are our primary sources of liquidity.

Revolving Credit Facility

On May 27, 2003, in connection with the Acquisition, the Company entered into a \$200.0 million five-year floating rate secured revolving credit facility (the "Revolver") with several lenders, under which \$118.2 million was initially borrowed. As of March 31, 2006, the outstanding balance on the Revolver was \$57.0 million. In order to maintain availability of funds under the facility, we pay a commitment fee on the unused portion of the Revolver. The Revolver is used to fund our seasonal working capital needs, which are affected by the growing cycles of the vegetables we process. The vast majority of vegetable inventories are produced during the harvesting and packing months of June through November and depleted through the remaining six months. Accordingly, our need to draw on the Revolver may fluctuate significantly throughout the year. As a result of the additional liquidity generated by the aforementioned divestitures, the Company provided notice

to its bank lenders in 2005 of its intention to reduce the Revolver from \$200.0 million to \$125.0 million. During 2006, the Company and its lenders extended the term of the Revolver for an additional year with a final maturity date of May 27, 2009 and the Company further reduced the Revolver from \$125.0 million to \$100.0 million. Subsequent to 2006 year-end, the Company and its lenders extended the term of the Revolver for an additional two years with a final maturity date of July 31, 2011.

We believe that cash flows from operations and availability under our Revolver will provide adequate funds for our working capital needs, planned capital expenditures and debt service obligations for at least the next 12 months.

Long-Term Debt

The Company has two major long-term debt instruments: 1) a \$67.8 million secured note payable to John Hancock Life Insurance Company, with an interest rate of 8.03%, which is due through 2014; and 2) a \$42.6 million secured note payable to GMOI, with an interest rate of 8%, which is due through 2010. The Company did not issue any significant long-term debt in 2006. During 2005, the Company issued a mortgage to GE Capital for \$8.0 million with an interest rate of 6.35% and a term of 15 years. The proceeds were used to finance new warehouse construction in Janesville and Cambria, Wisconsin.

At March 31, 2006, scheduled maturities of long-term debt in each of the five succeeding fiscal years are as follows (in thousands):

2007	\$ 9,116
2008	8,972
2009	9,169
2010	37,663
2011	5,346
Thereafter	77,663

Restrictive Covenants

Our credit facilities contain covenants that restrict our ability and the ability of our subsidiaries to incur additional indebtedness, pay dividends on and redeem our capital stock, make other restricted payments, including investments, sell our assets, incur liens, transfer all or substantially all of our assets and enter into consolidations or mergers. Our credit facilities also require us to meet certain financial tests, including minimum fixed charge coverage, minimum interest coverage and maximum total debt ratios. These financial requirements and ratios generally become more restrictive over time, subject to allowances for seasonal fluctuations. We are in compliance with all such financial covenants, and were in compliance therewith as of March 31, 2006. The most restrictive financial covenant in the credit agreements is the minimum fixed charge coverage ratio.

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

Capital Expenditures

Capital expenditures in 2006 totaled \$11.9 million and include a \$2.3 million waste treatment expansion in the Midwest, equipment replacement and other improvements, and economic return and cost saving projects. Capital expenditures in 2005 totaled \$14.4 million and include \$7.4 million of construction costs for three warehouse expansion projects in Geneva, New York; Janesville, Wisconsin; and Cambria, Wisconsin together with equipment replacement and cost saving projects. The total cost of the Geneva, Janesville, and Cambria warehouse projects during 2005 and 2004 was \$14.8 million.

Inventories

In 2006, inventories increased by \$12.8 million primarily reflecting the effect of higher quantities on hand associated with the large harvest in the summer of 2005, partially offset by unit cost reductions. In 2005, inventories increased by \$24.2 million primarily reflecting the effect of unit cost increases for key commodity inputs including steel and energy.

Critical Accounting Policies

During the year ended 2006, the Company sold for cash, on a bill and hold basis, \$187.6 million of Green Giant finished goods inventory to GMOI. At the time of the sale of the Green Giant vegetables to GMOI, title of the specified inventory transferred to GMOI. In addition, the aforementioned finished goods inventory was complete, ready for shipment and segregated from the Company's other finished goods inventory. Further, the Company had performed all of its obligations with respect to the sale of the specified Green Giant finished goods inventory.

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 net present value of the cash flows are less than carrying value. A loss is recognized when the carrying value of an asset exceeds its fair value.

Obligations and Commitments

As of March 31, 2006, the Company is obligated to make cash payments in connection with our capital leases, debt, and operating leases. The effect of these obligations and commitments on our liquidity and cash flows in future periods are listed below. All of these arrangements require cash payments over varying periods of time. Certain of these arrangements are cancelable on short notice and others require termination or severance payments as part of any early termination.

	Contractual Obligations March 31, 2006			
	2007	2008-9	2010-11	2012 and beyond
Long-term debt	\$ 9,116	\$ 18,141	\$ 43,009	\$ 77,663
Interest	14,440	26,684	20,547	28,101
Notes payable	—	—	—	57,029
Operating lease obligations	18,689	29,575	20,833	12,113
Purchase commitments	105,266	—	—	—
Capital lease obligations	672	995	851	1,927
Total	\$148,183	\$ 75,395	\$ 85,240	\$176,833

In addition, the Company's defined benefit plan has an unfunded pension liability of \$14.6 million which is subject to certain actuarial assumptions.

Purchase commitments represent estimated payments to growers for crops during the 2006 season.

We have no material off-balance sheet debt or other unrecorded obligations other than the items noted above.

Standby Letters of Credit

We have standby letters of credit for certain insurance-related requirements and capital leases. The majority of our standby letters of credit are automatically renewed annually, unless the issuer gives cancellation notice in advance. On March 31, 2006, we had \$6.2 million in outstanding standby letters of credit.

Cash Flows

In 2006, our cash and cash equivalents increased by \$0.9 million,

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

which is due to the net impact of \$31.8 million provided by operating activities, \$10.7 million used in investing activities, and \$20.2 million used by financing activities.

Operating Activities

Cash provided by operating activities increased to \$31.8 million in 2006 from \$18.0 million in 2005. The increase is primarily a function of higher operating earnings in 2006 and the lower inventory buildup in 2006 versus 2005. The cash requirements of the business fluctuate significantly throughout the year to coincide with the seasonal growing cycles of vegetables. The vast majority of the inventories are produced during the packing months, from June through November, and then depleted during the remaining six months. Cash flow from operating activities is one of our main sources of liquidity.

Cash provided by operating activities increased to \$18.0 million in 2005 from \$1.6 million in 2004. The increase is primarily a function of the negative cash flow impact in 2004 associated with the inventory increase related to the CPF acquisition partially offset by lower operating earnings in 2005.

Investing Activities

Cash used in investing activities was \$10.7 million in 2006, principally reflecting capital expenditures partially offset by \$1.2 million in proceeds from the sale of certain fixed assets. Capital expenditures aggregated \$11.9 million in 2006 versus \$14.4 million in 2005. Capital expenditures in 2006 include a \$2.3 million waste treatment expansion in the Midwest, equipment replacements and other improvements, and economic return and cost saving projects.

Cash used in investing activities was \$8.2 million in 2005, principally reflecting capital expenditures partially offset by \$6.2 million in proceeds from the sale of assets including \$4.6 million from the sale of Class B Common Stock of Moog Inc. Capital expenditures aggregated \$14.4 million in 2005 versus \$23.1 million in 2004. Capital expenditures were unusually high in 2004 reflecting a significant number of equipment upgrades and other improvements in connection with the CPF acquisition. Capital expenditures in 2005 and 2004 included \$7.4 million and \$7.2 million, respectively, for warehouse expansion projects. This included the completion of the Janesville and Cambria, Wisconsin projects started in 2004 and a Geneva, New York warehouse expansion.

Cash used in investing activities was \$85.9 million for 2004, primarily reflecting the cash requirements of the CPF acquisition partially offset by proceeds from the sale of assets primarily involving the divestiture of four plants to Lakeside Foods. Capital expenditures aggregated \$23.1 million in 2004 versus \$6.8 million in 2003. The increase is primarily attributable to equipment replacement and other improvements at the former CPF locations together with \$7.2 million of construction in progress on two warehouse expansion projects in Janesville and Cambria, Wisconsin.

Financing Activities

Cash used in financing activities was \$20.2 million in 2006 principally consisting of the repayment of \$17.0 million in long-term debt and the repayment of \$3.7 million in notes payable.

Cash used in financing activities was \$9.2 million in 2005 principally consisting of the repayment of \$21.9 million in long-term debt partially offset by the \$9.1 million in proceeds from long-term debt. Cash provided by financing activities was \$23.9 million in 2004. During 2004, we borrowed cash to fund the CPF acquisition.

RESULTS OF OPERATIONS

Fiscal 2006 versus Fiscal 2005

Classes of similar products/services:	2006	2005	2004
	(In thousands)		
Net Sales:			
GMOI	\$240,490	\$225,527	\$247,992
Canned vegetables	573,779	574,802	579,103
Frozen vegetables	29,464	28,304	29,410
Fruit and chip products	26,640	23,358	22,838
Other	13,450	12,283	11,507
	<u>\$883,823</u>	<u>\$864,274</u>	<u>\$890,850</u>

Net sales for fiscal 2006 increased \$19.5 million, or 2%, from \$864.3 million to \$883.8 million. The increase primarily reflects a \$14.9 million increase in sales to GMOI associated with the favorable growing conditions in the summer of 2005 together with a \$3.3 million increase in Fruit and Chip Product sales reflecting increased co-pack potato chip volume associated with improved market conditions.

Cost of product sold as a percentage of sales decreased from 92.6% in 2005 to 90.1% in 2006 primarily reflecting favorable manufacturing variances associated with the excellent growing season which drove improved crop yields and plant recovery rates. Furthermore, the Company's overall cost structure benefited from the closure of three processing facilities in connection with the plant restructuring program implemented in 2005.

Selling, general and administrative expense increased slightly from 3.7% of sales in 2005 to 3.8% in 2006 principally reflecting strategic initiatives undertaken in the information technology area.

Plant restructuring costs decreased from \$7.7 million in 2005 to \$1.9 million in 2006 and are described in detail in the Restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest expense decreased from \$16.6 million in 2005 to \$15.8 million in 2006 primarily reflecting the scheduled repayment of long-term debt in 2006.

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

Other expense of \$1.1 million in 2006 primarily reflects the effect of a \$1.9 million non-cash loss on the disposal of property, plant and equipment which was partially offset by a \$1.0 million gain on the sale of certain fixed assets. Other income of \$3.8 million in 2005 reflects the gain on the sale of Moog Inc. stock of \$3.9 million and the gain on the sale of certain fixed assets of \$0.6 million. This was partially offset by a non-cash charge of \$0.7 million reflecting the write-down of deferred financing costs associated with the reduction of the Revolver from \$200 million to \$125 million.

As a result of the above factors, pre-tax earnings increased from \$12.0 million in 2005 to \$35.5 million in 2006. The effective tax rate was 38.0% in 2006 and 34.3% in 2005. The increase in the 2006 effective tax rate reflects the reversal of certain tax reserves in 2005 which were no longer required.

Fiscal 2005 versus Fiscal 2004

Net sales for fiscal 2005 decreased \$26.6 million, or 3%, from \$890.9 million to \$864.3 million. The decrease primarily reflects a planned reduction of \$22.5 million in GMOI production which was exacerbated by the poor sweet corn growing conditions in the summer of 2004. In addition, we experienced a planned reduction of \$15.0 million in canned vegetable co-pack volume reflecting a strategic decision by the Company to exit certain unprofitable co-pack business. Although 2004 included only 10 months of CPF acquisition-related sales activity, the sales retention rate from the acquisition was higher in 2004, reflecting volume associated with plants that were ultimately divested to Lakeside Foods.

Cost of product sold as a percentage of sales increased from 92.2% in 2004 to 92.6% in 2005. The increase in the percentage of the cost of product sold reflects higher production costs in fiscal 2005 associated with unfavorable manufacturing variances principally the result of commodity inflation in key inputs such as steel, natural gas, and fuel. In addition, we experienced a difficult growing season in fiscal 2005 due to lower average temperatures in August which impacted crop yields, plant recovery rates and further resulted in certain contracted raw produce being unable to be harvested. The cost of complying with the Sarbanes-Oxley Act of 2002, which totaled \$2.5 million in 2005, was also a significant factor in the cost increase. Furthermore, the cost of a product recall, initiated in the second quarter of 2005, amounted to \$1.4 million. Finally, we were unable to fully pass along those higher costs to our customers, since many of our customer contracts are semi-annual and annual in nature.

Selling, general and administrative expense remained at 3.7% of sales, as the negative impact of the sales reduction was offset by effective expense control.

Plant restructuring costs were \$7.7 million in 2005 primarily involving the closure of three processing facilities which are detailed in the Restructuring section above. As a result of the CPF acquisition, the Company was able to complete plant

consolidations which will result in substantial savings by moving the volumes into other plants with minimal capital investment.

Interest expense increased from \$16.1 million in 2004 to \$16.6 million in 2005 primarily reflecting a full year of acquisition-related debt in 2005.

Other income of \$3.8 million in 2005 reflects the gain on the sale of Moog Inc. stock of \$3.9 million and the sale of certain fixed assets of \$0.6 million. This was partially offset by a non-cash charge of \$0.7 million reflecting the write-down of deferred financing costs associated with the reduction of the Revolver from \$200 million to \$125 million. Other income of \$0.2 million in 2004 reflects the gain on the sale of certain fixed assets.

As a result of the above factors, pre-tax earnings decreased from \$20.5 million in 2004 to \$12.0 million in 2005. The effective tax rate was 34.3% in 2005 and 37.0% in 2004. The reduction in the 2005 effective tax reflects the reversal of certain tax reserves which were no longer required.

Recently Issued Accounting Standards

In May 2005, the FASB issued Statement of Accounting Standards No. 154, Accounting Changes and Error Corrections ("SFAS 154"). SFAS 154 replaces APB No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and establishes retrospective application of a change in accounting principle. SFAS 154 provides guidance for determining whether retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not anticipate that the adoption of SFAS 154 will have a material effect on the Company's financial position or results of operations.

In November 2004, the FASB issued Statement of Accounting Standards No. 151, "Inventory Costs, and amendment of ARB No. 43, Chapter 4" ("SFAS 151"). This statement amends the guidance in ARB No. 43, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criteria "so abnormal." In addition, this statement requires that allocation of fixed production overheads to cost of conversion be based on normal capacity of the production facilities. The provisions of SFAS 151 shall be applied prospectively and are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during fiscal years beginning after the date this Statement is issued. The Company's adoption of SFAS 151 is not expected to have a material impact on the Company's financial position or results of operations.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As a result of its regular borrowing activities, the Company's operating results are exposed to fluctuations in interest rates, which it manages primarily through its regular financing activities. The Company uses a revolving credit facility with variable interest rates to finance seasonal working capital requirements. The Company maintains \$6.0 million in cash equivalents as of March 31, 2006. Long-term debt is used to finance long-term investments, such as business acquisitions, and principally consists of secured notes payable and capital lease obligations. Long-term debt bears interest at fixed and variable rates. With \$88.8 million in average variable-rate debt, a 1% change in interest rates would have an \$888 thousand effect on interest expense. The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity date. Weighted average interest rates on long-term variable-rate debt are based on rates as of March 31, 2006. Weighted average interest rates on short-term variable-rate debt are based on average rates throughout fiscal 2006.

Commodity Risk

The materials that the Company uses, such as vegetables, steel, and packaging materials are commodities that may experience price volatility caused by external factors including market fluctuations, availability, currency fluctuations, and changes in governmental regulations and agricultural programs. These events can result in reduced supplies of these materials, higher supply costs, or interruptions in our production schedules. If prices of these raw materials increase and the Company is not able to effectively pass such price increases along to its customers, operating income will decrease. In light of the recent volatility in steel pricing, a 5% change in steel unit costs would equate to a \$3.2 million cost impact.

The Company does not currently use derivative instruments to potentially alter its interest rate or commodity risks.

Interest Rate Sensitivity of Long-Term Debt, Short-Term Debt, and Short-Term Investments
March 31, 2006
(In thousands)

	EXPECTED MATURITY DATE						Total/ Weighted Average	Estimated Fair Value
	2007	2008	2009	2010	2011	Thereafter		
Fixed-rate L/T debt:								
Principal cash flows	\$ 9,638	\$ 9,416	\$ 9,420	\$ 37,933	\$ 5,626	\$ 56,810	\$128,843	\$125,010
Average interest rate	6.69%	6.98%	7.14%	7.89%	7.89%	7.70%	7.55%	—
Variable-rate L/T debt:								
Principal cash flows	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 22,780	\$ 23,530	\$ 23,530
Average interest rate	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.31%	—
Average variable-rate S/T debt:								
Principal cash flows							\$ 65,227	\$ 65,227
Average interest rate							5.38%	—
Short-term investments:								
Average balance							\$ 34	\$ 34
Average interest rate							3.93%	—

Consolidated Statements of Net Earnings

Seneca Foods Corporation and Subsidiaries

(In thousands of dollars, except per share amounts)

Years ended March 31,	2006	2005	2004
Net sales	\$ 883,823	\$ 864,274	\$ 890,850
Costs and expenses:			
Cost of product sold	796,224	800,002	821,604
Selling, general, and administrative expense	33,322	31,726	32,770
Plant restructuring	1,920	7,678	—
Total costs and expenses	831,466	839,406	854,374
Operating income	52,357	24,868	36,476
Other expense (income), net	1,115	(3,757)	(207)
Interest expense, net of interest income of \$286, \$102, and \$395, respectively	15,784	16,592	16,135
Earnings before income taxes	35,458	12,033	20,548
Income taxes	13,465	4,126	7,607
Net earnings	\$ 21,993	\$ 7,907	\$ 12,941
Basic earnings per common share	\$ 1.97	\$.71	\$ 1.18
Diluted earnings per common share	\$ 1.96	\$.70	\$ 1.17

See notes to consolidated financial statements.

Consolidated Balance Sheets

Seneca Foods Corporation and Subsidiaries

(In thousands)

March 31,	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,046	\$ 5,179
Accounts receivable, less allowance for doubtful accounts of \$445 and \$625, respectively	46,618	43,664
Inventories:		
Finished products	220,185	209,874
In process	22,012	17,168
Raw materials and supplies	65,095	67,428
Deferred income taxes	6,426	5,669
Assets held for sale	1,369	1,451
Refundable income taxes	—	1,199
Prepaid expenses	2,141	7,192
Total Current Assets	369,892	358,824
Other assets	5,273	2,381
Property, Plant, and Equipment:		
Land	9,945	9,981
Building	119,937	122,644
Equipment	275,667	296,512
	405,549	429,137
Less accumulated depreciation and amortization	257,048	265,847
Net Property, Plant, and Equipment	148,501	163,290
Total Assets	\$523,666	\$524,495
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	\$ 57,029	\$ 60,733
Accounts payable	35,163	38,719
Accrued expenses	32,312	38,271
Current portion of long-term debt and capital lease obligations	9,788	15,671
Income taxes	6,090	—
Total Current Liabilities	140,382	153,394
Long-term debt, less current portion	138,813	148,318
Capital lease obligations, less current portion	3,773	5,807
Other liabilities	15,381	10,042
Deferred income taxes	7,538	11,125
Total Liabilities	305,887	328,686
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Preferred stock	54,486	56,335
Common stock	2,890	2,859
Total Capital Stock	57,376	59,194
Additional paid-in capital	17,810	15,992
Retained earnings	142,593	120,623
Total Stockholders' Equity	217,779	195,809
Total Liabilities and Stockholders' Equity	\$523,666	\$524,495

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seneca Foods Corporation and Subsidiaries

(In thousands)

Years ended March 31,	2006	2005	2004
Cash flows from operating activities:			
Net earnings	\$ 21,993	\$ 7,907	\$ 12,941
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	23,793	29,178	29,393
Deferred income tax provision (benefit)	(4,344)	(1,552)	1,107
Gain on the sale of assets	(966)	(4,469)	(207)
Impairment provision and other expenses	2,081	5,673	—
Changes in operating assets and liabilities:			
Accounts receivable	(2,591)	2,516	9,991
Inventories	(12,822)	(24,187)	(41,122)
Prepaid expenses	5,051	4,906	(10,782)
Accounts payable, accrued expenses, and other liabilities	(7,640)	(1,218)	(1,686)
Income taxes	7,289	(748)	1,987
Net cash provided by operations	31,844	18,006	1,622
Cash flows from investing activities:			
Additions to property, plant, and equipment	(11,906)	(14,415)	(23,109)
Proceeds from the sale of assets	1,215	6,233	48,808
Business acquisition	—	—	(114,172)
Cash received from business acquisition	—	—	2,560
Net cash used in investing activities	(10,691)	(8,182)	(85,913)
Cash flows from financing activities:			
Borrowings on notes payable	311,481	285,425	396,568
Payments on notes payable	(315,185)	(283,087)	(363,548)
Payments of long-term debt and capital lease obligations	(17,039)	(21,856)	(51,903)
Proceeds from issuance of long-term debt	397	9,146	42,562
Other assets	83	1,180	221
Preferred dividends paid	(23)	(23)	(23)
Net cash (used in) provided by financing activities	(20,286)	(9,215)	23,877
Net increase (decrease) in cash and cash equivalents	867	609	(60,414)
Cash and cash equivalents, beginning of year	5,179	4,570	64,984
Cash and cash equivalents, end of year	\$ 6,046	\$ 5,179	\$ 4,570

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest	\$ 15,260	\$ 16,973	\$ 15,023
Income taxes	10,520	6,425	5,768

Supplemental information of non-cash investing and financing activities:

\$16.1 million of Preferred Stock was issued in partial consideration for the CPF acquisition in 2004. The Company assumed \$9.1 million of long-term debt related to the CPF acquisition. The Company acquired a \$3.6 million note receivable from the sale of the Washington corn processing facility.

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Seneca Foods Corporation and Subsidiaries

(In thousands, except share amounts)

	Preferred Stock				Class A Common Stock Par Value \$.25	Class B Common Stock Par Value \$.25	Additional Paid-In Capital	Accumulated		
	6% Cumulative Par Value \$.25 Callable at Par Voting	10% Cumulative Par Value \$.025 Convertible Voting	Participating Convertible Par Value \$.025	Participating Convertible Par Value \$.025				Other Comprehensive Income	Retained Earnings	Comprehensive Income
Shares authorized	200,000	1,400,000	967,742	4,166,667	20,000,000	10,000,000				
Shares issued and outstanding:										
March 31, 2004	200,000	807,240	967,742	3,443,596	3,950,380	2,764,005				
March 31, 2005	200,000	807,240	967,742	3,443,359	3,951,717	2,762,905				
March 31, 2006	200,000	807,240	853,500	3,436,809	4,074,509	2,760,905				
Balance March 31, 2003	\$50	\$20	\$—	\$41,586	\$978	\$1,871	\$14,616	\$422	\$99,821	
Net earnings	—	—	—	—	—	—	—	—	12,941	\$12,941
Cash dividends paid on preferred stock	—	—	—	—	—	—	—	—	(23)	—
Preferred stock conversion	—	—	—	(500)	10	—	490	—	—	—
Preferred stock issued	—	—	15,000	—	—	—	1,065	—	—	—
Minimum pension liability (net of tax \$477)	—	—	—	—	—	—	—	778	—	778
Preferred stock adjustment	—	182	—	—	—	—	(182)	—	—	—
Net unrealized gain on investments (net of tax \$658)	—	—	—	—	—	—	—	1,124	—	1,124
Balance March 31, 2004	50	202	15,000	41,086	988	1,871	15,989	2,324	112,739	\$14,843
Net earnings	—	—	—	—	—	—	—	—	7,907	\$7,907
Cash dividends paid on preferred stock	—	—	—	—	—	—	—	—	(23)	—
Preferred stock conversion	—	—	—	(3)	—	—	3	—	—	—
Net unrealized gain on investments (net of tax \$16)	—	—	—	—	—	—	—	32	—	32
Net reclassification of accumulated other comprehensive income (net of tax \$1,160)	—	—	—	—	—	—	—	(2,356)	—	(2,356)
Balance March 31, 2005	50	202	15,000	41,083	988	1,871	15,992	—	120,623	\$5,583
Net earnings	—	—	—	—	—	—	—	—	21,993	\$21,993
Cash dividends paid on preferred stock	—	—	—	—	—	—	—	—	(23)	—
Preferred stock conversion	—	—	(1,771)	(78)	31	—	1,818	—	—	—
Balance March 31, 2006	\$50	\$202	\$13,229	\$41,005	\$1,019	\$1,871	\$17,810	\$—	\$142,593	\$21,993

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Seneca Foods Corporation and Subsidiaries

1. Summary of Significant Accounting Policies

Nature of Operations - Seneca Foods Corporation and subsidiaries (“The Company”) conducts its business almost entirely in food processing, operating 27 plants and warehouses in seven states. The Company markets branded and private label processed foods to retailers and institutional food distributors.

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

Revenue Recognition - Sales and related cost of product sold are recognized when legal title passes to the purchaser, which is primarily upon shipment of products. When customers, under the terms of specific orders, request that the Company invoice goods and hold the goods for future shipment, the Company recognizes revenue when legal title to the finished goods inventory passes to the purchaser. Generally, the Company receives cash from the purchaser when legal title passes. During the year ended 2006, the Company sold for cash, on a bill and hold basis, \$187.6 million of Green Giant finished goods inventory to GMOI. At the time of the sale of the Green Giant vegetables to GMOI, title of the specified inventory transferred to GMOI. In addition, the aforementioned finished goods inventory was complete, ready for shipment and segregated from the Company’s other finished goods inventory. Further, the Company had performed all of its obligations with respect to the sale of the specified Green Giant finished goods inventory.

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.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to credit risk consist of trade receivables and interest-bearing investments. Wholesale and retail food distributors comprise a significant portion of the trade

receivables; collateral is generally not required. A relatively limited number of customers account for a large percentage of our total sales. GMOI sales represented 27%, 26% and 28% of net sales in fiscal 2006, 2005 and 2004, respectively. The top ten customers represented approximately 55%, 52% and 49%, of net sales for fiscal 2006, 2005 and 2004, respectively. The Company closely monitors the credit risk associated with its customers. The Company places substantially all of its interest-bearing investments with financial institutions and monitors credit exposure. Cash and short-term investments in certain accounts exceed the federal insured limit, however, the Company has not experienced any losses in such accounts.

Cash and Cash Equivalents - The Company considers all highly liquid instruments purchased with an original maturity of three months or less as short-term investments.

Inventories - Inventories are stated at lower of cost; determined under the first-in, first-out (FIFO) method; or market.

Income Taxes - The provision for income taxes includes federal and state income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities and tax credit carryforwards.

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

Doubtful Accounts - A provision for doubtful accounts is recorded based upon an assessment of credit risk within the accounts receivable portfolio, experience of delinquencies (accounts over 15 days past due) and charge-offs (accounts removed from accounts receivable for expectation of non-payment), and current market conditions. Management believes these provisions are adequate based upon the relevant information presently available. However, it is possible that the Company’s provisions may change in the future.

Earnings per Common Share - The Company has two classes of convertible preferred stock, which are deemed to be participating securities that are entitled to participate in any dividend on Class A common stock as if the preferred stock had been converted into common stock immediately prior to the record date for such dividend. Basic earnings per share for common stock must be calculated using the “two-class” method by dividing the earnings allocated to common stockholders by the weighted average of common shares outstanding during the period.

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

Notes to Consolidated Financial Statements

Years ended March 31,	2006	2005	2004
	(In thousands, except per share amounts)		
Basic			
Net earnings	\$21,993	\$ 7,907	\$12,941
Deduct preferred stock dividends paid	23	23	23
Undistributed earnings	21,970	7,884	12,918
Earnings allocated to participating preferred	8,522	3,126	5,035
Earnings allocated to common shareholders	\$13,448	\$ 4,758	\$ 7,883
Weighted average common shares outstanding	6,811	6,714	6,691
Basic earnings per common share	\$ 1.97	\$.71	\$ 1.18
Diluted			
Earnings allocated to common shareholders	\$13,448	\$ 4,758	\$ 7,883
Add dividends on convertible preferred stock	20	20	20
Earnings applicable to common stock on a diluted basis	\$13,468	\$ 4,778	\$ 7,903
Weighted average common shares outstanding-basic	6,811	6,714	6,691
Additional shares to be issued under full conversion of preferred stock	67	67	67
Total shares for diluted	6,878	6,781	6,758
Diluted earnings per share	\$ 1.96	\$.70	\$ 1.17

Depreciation and Valuation - Property, plant, and equipment are stated at cost or, in the case of capital leases, the present value of future lease payments. For financial reporting, the Company provides for depreciation and capital lease amortization on the straight-line method at rates based upon the estimated useful lives of the various assets or term of lease, if shorter. Depreciation and capital lease amortization was \$23,011,000, \$28,503,000, and \$28,676,000 in fiscal 2006, 2005, and 2004, respectively. The estimated useful lives are as follows: buildings - 30 years; machinery and equipment - 10-15 years; vehicles - 3-7 years; and land improvements - 10-20 years. Impairment losses are evaluated if the net present value of the cash flows are less than carrying value. A loss is recognized when the carrying value of an asset exceeds its fair value. The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. There were \$79,000 of impairment losses in 2006 that were included in Plant Restructuring. There were \$4,960,000 of impairment losses in 2005 that were included in Plant Restructuring (see Plant

Restructuring, note 15). There were no impairment losses in 2004. Assets held for sale are carried at the lower of estimated fair value less selling costs or depreciated value at date of determination to sell.

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

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2. Acquisition

On May 27, 2003, the Company completed its acquisition of 100% of the membership interest in Chiquita Processed Foods, L.L.C. ("CPF") from Chiquita Brands International, Inc. The primary reason for the acquisition was to acquire additional production

capacity in the Canned Vegetable business. The purchase price totaled \$126.1 million plus the assumption of certain liabilities. This acquisition was financed with cash, proceeds from a new \$200.0 million revolving credit facility, and \$16.1 million of the

Notes to Consolidated Financial Statements

Company's Participating Convertible Preferred Stock. The Preferred Stock is convertible into the Company's Class A Common Stock on a one-for-one basis. The Preferred Stock was valued at \$16.60 per share based on the market value of the Class A Common Stock at the time the acquisition was announced.

As part of this acquisition, the Company assumed and immediately paid off most of CPF's debt and capital lease obligations with proceeds from the new \$200.0 million revolving credit facility.

The Company sold three former CPF plants and related assets to Lakeside Foods, Inc. on June 17, 2003. The Company sold one additional former CPF plant and related assets to Lakeside Foods, Inc. on August 6, 2003. The aforementioned sales to Lakeside Foods, Inc. generated \$46 million in cash proceeds, which was used to pay down debt. The Company sold additional plant locations that were designated as assets held for sale during 2005 and 2004.

3. Line of Credit

The Company obtains required short-term funds through bank borrowings. On May 27, 2003, in connection with the acquisition of CPF, the Company entered into a \$200 million five-year floating rate secured revolving credit facility (the "Revolver") with various banks. During 2005, the Company provided its bank lenders with notice to reduce the Revolver from \$200 million to \$125 million. During 2006, the Company and its lenders extended the term of the Revolver for an additional year with a final maturity date of May 27, 2009 and the Company provided its lenders with notice to further reduce the Revolver from \$125 million to \$100 million. Subsequent to the 2006 year-end, the Company and its lenders extended the term of the Revolver for an additional two years with

a final maturity date of July 31, 2011. As of March 31, 2006, the outstanding balance of the Revolver was \$57,029,000, with a weighted average interest rate of 6.32%, and is included in notes payable on the Consolidated Balance Sheet. The Revolver is secured by accounts receivable and inventory with a carrying value of \$353,910,000. There were \$60,733,000 in bank borrowings under the Revolver at March 31, 2005. The Company had \$5,937,000 of outstanding standby letters of credit as of March 31, 2006 and 2005 that reduce borrowing availability under the Revolver. See Note 4, Long-Term Debt, for additional comments related to the Revolver.

4. Long-Term Debt

	2006	2005
	(In thousands)	
Secured note payable to insurance company, 8.03%, due through 2014	\$ 67,816	\$ 70,862
Secured subordinated promissory note, 8.00%, due through 2010	42,618	46,583
Secured Industrial Revenue Development Bonds, 4.89% and 3.53%, due through 2029	22,630	22,630
Secured promissory note, 6.35%, due through 2020	7,438	7,782
Secured Industrial Revenue Development Bond, 5.69%, due through 2010	2,550	3,173
Secured notes payable to utility company, 3.00%, due through 2011	1,414	2,295
Other	3,463	9,889
	<u>147,929</u>	<u>163,214</u>
Less current portion	9,116	14,896
	<u>\$ 138,813</u>	<u>\$ 148,318</u>

Our credit facilities, including the Revolver, contain covenants that restrict our ability and the ability of our subsidiaries to incur additional indebtedness; pay dividends on and redeem our capital stock; make other restricted payments, including investments; sell our assets; incur liens; transfer all or substantially all of our assets; and enter into consolidations or mergers. Our credit facilities also

require us to meet certain financial tests, including minimum fixed charge coverage, minimum interest coverage, and maximum total debt ratios. These financial requirements and ratios generally become more restrictive over time, subject to allowances for seasonal fluctuations. We are in compliance with all such financial covenants, and were in compliance therewith as of March 31, 2006. The most restrictive financial covenant in the credit agreements is the minimum fixed charge coverage ratio.

As of March 31, 2006, the most restrictive credit agreement limitation on the Company's payment of dividends and other distributions, such as purchases of shares, to holders of Class A or Class B Common Stock is an annual total limitation of \$500,000 reduced by aggregate annual dividend payments totaling \$23,000, which the Company presently pays on two outstanding classes of preferred stock.

The Company has five Industrial Revenue Bonds ("IRB's") totaling \$23,530,000, which are secured by direct pay letters of credit. The interest rates in the table above reflect the direct pay letters of credit costs and amortization of other related costs for those IRB's. Other than the five IRB's above, the carrying value of assets pledged for secured debt, including the \$100 million Revolver is \$433,795,000.

Notes to Consolidated Financial Statements

During the quarter ended September 27, 2003, the Company refinanced \$42.5 million of debt outstanding under the Revolver with new term debt from an insurance company. The new term debt from the insurance company of \$42.5 million, when combined with the refinancing of existing insurance company debt of \$32.5 million, has an interest rate of 8.03%, a fifteen-year amortization and a ten-year term.

Debt repayment requirements, excluding the Revolver, for the next five fiscal years are:

	(In thousands)
2007	\$ 9,116
2008	8,972
2009	9,169
2010	37,663
2011	5,346
Thereafter	<u>77,663</u>
	<u>\$147,929</u>

5. Leases

The Company leases a portion of its equipment and buildings. Capitalized leases consist primarily of limited obligation special revenue bonds, which bear interest rates from 1.42% to 4.75%. Other leases include non-cancelable operating leases expiring at various dates through 2016. Generally, operating leases provide for early purchase options one year prior to expiration.

Leased assets under capital leases consist of the following:

	2006	2005
	(In thousands)	
Land	\$ 67	\$ 67
Buildings	1,033	1,033
Equipment	<u>11,262</u>	<u>11,476</u>
	12,362	12,576
Less accumulated amortization	<u>11,026</u>	<u>10,651</u>
	<u>\$ 1,336</u>	<u>\$ 1,925</u>

The following is a schedule, by year, of minimum rental payments due under leases as of March 31, 2006:

	Operating	Capital
	(In thousands)	
Years ending March 31:		
2007	\$18,689	\$ 841
2008	16,062	744
2009	13,513	534
2010	11,797	536
2011	9,036	529
2012-2016	<u>12,113</u>	<u>2,132</u>
Total minimum payment required	<u>\$81,210</u>	<u>\$ 5,316</u>
Less interest		<u>871</u>
Present value of minimum lease payments		4,445
Amount due within one year		<u>672</u>
Long-term capital lease obligations		\$ 3,773

Rental expense in fiscal 2006, 2005, and 2004 was \$23,999,000, \$23,059,000, and \$20,538,000, respectively.

6. Income Taxes

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

	2006	2005	2004
	(In thousands)		
Current:			
Federal	\$ 14,852	\$ 4,489	\$ 4,938
State	<u>2,957</u>	<u>1,189</u>	<u>1,562</u>
	<u>17,809</u>	<u>5,678</u>	<u>6,500</u>
Deferred:			
Federal	(3,898)	(1,448)	1,009
State	<u>(446)</u>	<u>(104)</u>	<u>98</u>
	<u>(4,344)</u>	<u>(1,552)</u>	<u>1,107</u>
Total income taxes	<u>\$13,465</u>	<u>\$ 4,126</u>	<u>\$ 7,607</u>

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

	2006	2005	2004
Computed (expected tax rate)	35.0%	35.0%	35.0%
State income taxes (net of federal tax benefit)	4.5	5.9	5.2
Manufacturer's deduction	(1.6)	—	—
Reversal of tax reserves	(1.0)	(4.2)	—
Other permanent differences not deductible	0.4	1.7	1.1
Tax-exempt income	(0.3)	—	(0.7)
Other	<u>1.0</u>	<u>(4.1)</u>	<u>(3.6)</u>
Effective income tax rate	<u>38.0%</u>	<u>34.3%</u>	<u>37.0%</u>

Notes to Consolidated Financial Statements

The following is a summary of the significant components of the Company's deferred income tax assets and liabilities as of March 31, 2006 and 2005:

	2006	2005
	(In thousands)	
Deferred income tax liabilities:		
Property basis and depreciation difference	\$ 11,504	\$ 14,178
Other	264	142
	<u>11,768</u>	<u>14,320</u>
Deferred income tax assets:		
Inventory valuation	1,238	704
Employee benefits	2,810	2,667
Pension	4,073	3,028
Insurance	2,138	1,963
Deferred gain on sale/leaseback	331	405
Severance	66	97
	<u>10,656</u>	<u>8,864</u>
Net deferred income tax liability	<u>\$ 1,112</u>	<u>\$ 5,456</u>

Net current deferred income tax assets of \$6,426,000 and \$5,669,000 as of March 31, 2006 and 2005, respectively, are recognized in the Consolidated Balance Sheets. Also recognized are net non-current deferred income tax liabilities of \$7,538,000 and \$11,125,000 as of March 31, 2006 and 2005, respectively.

7. Stockholders' Equity

Preferred Stock – The Company has issued two classes of voting participating convertible preferred stock, par values of \$.025, which are convertible at the holders' option on a one-for-one basis into shares of Class A Common Stock, subject to antidilution adjustments. Both classes have the right to receive dividends and distributions at a rate equal to the amount of any dividends and distributions declared or made on the Class A Common Stock. No dividends were declared or paid on this preferred stock in fiscal 2006, 2005 or 2004. In addition, this preferred stock has certain distribution rights upon liquidation.

One class of participating preferred stock has a liquidation value of \$12 per share and has 3,436,809 shares outstanding as of March 31, 2006 after conversion of 6,550 shares into Class A Common Stock during fiscal 2006. The second class of participating preferred stock was issued as partial consideration of the purchase price in the CPF acquisition. The 967,742 shares issued in that acquisition were valued at \$16.60 per share which represented the then market value of the Class A Common Stock into which the preferred shares were immediately convertible. This class of shares has a liquidation value of \$15.50 per share and has 853,500 shares outstanding as of March 31, 2006 after conversion of 114,242 shares into Class A Common Stock during fiscal 2006.

The Company also has an aggregate of 2,633,333 shares of non-participating preferred stock authorized for issuance. There are three classes of preferred stock designated as of March 31, 2006, including 1,000,000 shares of Class A 10% cumulative, convertible, voting preferred stock ("Class A preferred"), 400,000 shares of Class B 10% cumulative, convertible, voting preferred stock

("Class B Preferred") and 200,000 shares of 6% cumulative, voting preferred stock ("6% preferred"). Each share of designated preferred stock has as many votes as the number of common shares into which it is convertible and a stated value of \$0.25 per share.

There are 407,240 shares of Class A preferred issued and outstanding with a par value of \$.025 which are convertible into one share of Class A Common Stock and one share of Class B Common stock for every 20 shares of Class A preferred. There are 400,000 shares of Class B preferred issued and outstanding with a par value of \$.025 which are convertible into one share of Class A Common Stock and one share of Class B Common stock for every 30 shares of Class B preferred. There are 200,000 shares of 6% preferred issued and outstanding with a par value of \$.25, which are callable at their par value at any time at the option of the Company. The Company paid dividends of \$20,181 on the Class A and Class B preferred and \$3,000 on the 6% preferred during each of fiscal 2006, 2005 and 2004.

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

Notes to Consolidated Financial Statements

Unissued shares of common stock reserved for conversion privileges of designated non-participating preferred stock were 33,695 of both Class A and Class B as of March 31, 2006 and 2005.

Additionally, there were 4,290,309 and 4,411,101 shares of Class A reserved for conversion of the Participating Preferred Stock as of March 31, 2006 and 2005, respectively.

8. Retirement Plans

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

The following tables provide a reconciliation of the changes in the Plan's benefit obligation and fair value of plan assets over the two-year period ended March 31, 2006 and a statement of the funded status as of March 31, 2006 and 2005:

	2006	2005
	(In thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 74,683	\$ 66,991
Service cost	3,998	3,050
Interest cost	4,124	3,987
Actuarial gain	1,414	3,877
Benefit payments and expenses	(2,959)	(3,222)
Benefit obligation at end of year	\$ 81,260	\$ 74,683

	2006	2005
	(In thousands)	
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 62,972	\$ 59,687
Actual return on plan assets	6,658	3,686
Employer contributions	—	2,821
Benefit payments and expenses	(2,959)	(3,222)
Fair value of plan assets at end of year	\$ 66,671	\$ 62,972

	2006	2005
	(In thousands)	
Funded Status		
Funded status at end of year	\$ (14,589)	\$ (11,711)
Unrecognized transition asset	(1,609)	(1,885)
Unrecognized loss	6,419	6,336
Accrued benefit cost	\$ (9,779)	\$ (7,260)

The following table provides the components of net periodic benefit cost for the Plan for fiscal years 2006, 2005, and 2004:

	2006	2005	2004
	(In thousands)		
Service cost	\$ 3,998	\$ 3,050	\$ 2,545
Interest cost	4,124	3,987	3,519
Expected return on plan assets	(5,377)	(5,183)	(3,850)
Amortization of transition asset	(276)	(276)	(276)
Amortization of net gain	50	—	649
Net periodic benefit cost	\$ 2,519	\$ 1,578	\$ 2,587

The Plan's accumulated benefit obligation was \$72,552,000 at March 31, 2006, and \$66,941,000 at March 31, 2005.

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

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

	2006	2005
Discount rate	5.50%	5.75%
Expected return on plan assets	8.75%	8.75%
Rate of compensation increase	3.50%	3.50%

Plan Assets

	Target Allocation 2007	Percentage of Plan Assets at March 31, 2006	2005
Plan Assets:			
Equity Securities	99%	98%	99%
Debt Securities	—	—	—
Real Estate	—	—	—
Cash	1	2	1
Total	100%	100%	100%

Notes to Consolidated Financial Statements

Expected Return on Plan Assets

The expected rate of return on Plan assets is 8.75%. The Company expects 8.75% to fall within the 40-to-50 percentile range of returns on investment portfolios with asset diversification similar to that of the pension plan's target asset allocation.

Investment Policy and Strategy

The Company maintains an investment policy designed to achieve a long-term rate of return, including investment income through dividends and equity appreciation, sufficient to meet the actuarial requirements of the pension plans. The Company seeks to accomplish its return objectives by prudently investing in a diversified portfolio of public company equities with broad industry representation seeking to provide long-term growth consistent with the performance of relevant market indices, as well as maintain an adequate level of liquidity for pension distributions as they fall due. The strategy of being fully invested in equities has historically provided greater rates of return over extended periods of time. The Plan holds the Company's common stock with a fair market value of \$5,310,000 as of March 31, 2006.

Cash Flows

The Company does not expect to have to fund the Plan in 2007.

Estimated future benefit payments reflecting expected future service for the fiscal years ending March 31:

2007	\$ 3,077
2008	3,256
2009	3,489
2010	3,621
2011	3,855
2012-2016	22,290

The Company has Employees' Savings Plans 401(k) covering all employees who meet certain age-entry requirements and work a stated minimum number of hours per year. Participants may make contributions up to the legal limit. The Company's matching contributions are discretionary. Costs charged to operations for the Company's matching contributions amounted to \$1,240,000, \$1,519,000, and \$1,708,000, in fiscal 2006, 2005, and 2004, respectively.

9. Fair Value of Financial Instruments

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

	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Long-term debt, including current portion	\$147,929	\$144,836	\$163,214	\$159,211
Notes payable	57,029	57,029	60,733	60,733
Capital leases, including current portion	4,445	3,704	6,582	5,796

The estimated fair values were determined as follows:

Long-term debt and capital lease obligations - The quoted market prices for similar debt or current rates offered to the company for debt with the same maturities.

Notes payable - The carrying amount approximates fair value due to the short-term maturity of the notes.

All other financial instruments of the Company have estimated fair value equal to carrying cost due to the short-term nature of these instruments.

10. Common Stock of Moog Inc.

During 2005, the Company sold its investment in the common stock of Moog Inc. The sale provided proceeds of \$4,578,000 and a realized gain of \$3,862,000. The Company's investment in the Class B Common Stock of Moog Inc., totaling \$4,465,000 as of

March 31, 2004, was included in marketable securities. The gross unrealized holding gains were \$3,749,000 and \$1,967,000 in 2004 and 2003 respectively.

11. Other Income and Expense

Other income in 2006 consisted of a gain of \$427,000 from the sale of a processing facility in Washington and \$539,000 from the sale of a warehouse located in Oregon. Other expenses in 2006 include

a non-cash loss on the disposal of property, plant and equipment of \$1,938,000 and a \$143,000 non-cash charge reflecting the write down of the corresponding pro-rata amount of deferred financing

Notes to Consolidated Financial Statements

cost due to reducing the Revolver from \$125 million to \$100 million.

Other income in 2005 consisted of a gain on the sale of Moog stock of \$3,862,000 and a gain of the sale of certain fixed assets of

\$607,000. Other expenses included a \$712,000 non-cash charge reflecting the write down of the corresponding pro-rata amount of deferred financing cost due to reducing the Revolver from \$200 million to \$125 million.

12. Segment Information

The Company manages its business on the basis of one reportable segment – the processing and sale of vegetables. The Company markets its product almost entirely in the United States. The Company has an Alliance Agreement with General Mills Operations, Inc. (GMOI) whereby the Company processes canned and frozen vegetables for GMOI under the Green Giant brand name. GMOI continues to be responsible for all of the sales, marketing, and customer service functions for the Green Giant products. In 2006, 2005, and 2004, the sale of Green Giant vegetables accounted for 27%, 26%, and 28% of net sales. The following information is presented in accordance with SFAS No. 131, “Disclosure about Segments of an Enterprise and Related Information”:

Classes of similar products/services:	2006	2005	2004
		(In thousands)	
Net Sales:			
GMOI	\$240,490	\$225,527	\$247,992
Canned vegetables	573,779	574,802	579,103
Frozen vegetables	29,464	28,304	29,410
Fruit and chip products	26,640	23,358	22,838
Other	13,450	12,283	11,507
	\$883,823	\$864,274	\$890,850

The vegetable component, consisting of GMOI, canned vegetables and frozen vegetables, represents 99%, 99% and 98% of assets and 92%, 101% and 98% of pre-tax earnings in 2006, 2005 and 2004, respectively.

13. Legal Proceedings and Other Contingencies

In the ordinary course of its business, the Company is made a party to certain legal proceedings seeking monetary damages, including proceedings involving product liability claims, worker’s compensation and other employee claims, tort and other general liability claims, for which it carries insurance, as well as patent infringement and related litigation. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company does not believe that an adverse decision in any of these legal proceedings would have a material adverse impact on its financial position, results of operations, or cash flows.

The Company is one of a number of business and local government entities which contributed waste materials to a landfill in Yates County in upstate New York, which was operated by a party unrelated to the Company primarily in the 1970’s through the early 1980’s. The Company’s wastes were primarily food and juice products. The landfill contained some hazardous materials and was remediated by the State of New York. The New York Attorney General has advised the Company and other known non-governmental waste contributors that New York has sustained a total remediation cost of \$4.9 million and seeks recovery of half that cost from the non-governmental waste contributors. The Company is one of four identified contributors who cooperatively are investigating the history of the landfill so as to identify and seek out other potentially responsible parties who are not defunct and are financially able to contribute to the non-governmental

parties’ reimbursement liability. Since this search is not expected to be completed until November 1, 2006, the Company’s liability cannot be definitively estimated. The Company does not believe that any ultimate settlement in excess of the amount accrued will have a material impact on its financial position or results of operations.

In early 1999, the Company sold to Tree Top, Inc. its applesauce business, including a plant in Prosser, Benton County, Washington. In the sale agreement governing the transaction, the Company represented to Tree Top that it was in compliance with all environmental laws. In 2003, the Benton County Clean Air Authority (“BCAA”) brought an enforcement action against Tree Top under Title V of the Clean Air Act and related State of Washington statutes, alleging that Tree Top was violating the Clean Air Act by failing to register the facility with BCAA pursuant to Title V. The BCAA also alleged that the facility failed to provide BCAA with a required notice of construction when it replaced a fourth boiler in the Prosser plant in 1988 when the Company was the sole owner. Tree Top has reached a settlement with the BCAA which, according to Tree Top, requires Tree Top to pay penalties and make modifications to equipment at a total cost of approximately \$493,000. Tree Top has made a formal demand on the Company for reimbursement of the entire amount. The Company disputes Tree Top’s assertion that the Company is liable for the total cost. The Company does not believe that any

Notes to Consolidated Financial Statements

resolution of this demand will have a material impact on its financial position or results of operations.

During 2004, various claims totaling approximately \$3,211,000 were asserted by the Fleming Companies against the Company and a subsidiary acquired in 2003 in the Bankruptcy proceedings in the U.S. Bankruptcy Court for the District of Delaware for (i) receipt of allegedly preferential payments under the U.S. Bankruptcy Code (\$1,292,000), (ii) receipt of alleged overpayments (\$1,139,000) and (iii) amounts allegedly owing under various vendor promotional programs (\$780,000). During 2005, the Company settled and paid these claims for \$399,000.

On June 15, 2004, an accident occurred at the Company's aircraft hangar located at the Yates County Airport in Penn Yan, New York. The damaged aircraft were repaired through insurance proceeds, and this matter did not have a material impact on the Company's financial position or results of operations.

The Company has six collective bargaining agreements with three union locals covering approximately 665 of its full-time employees. The terms of these agreements result in wages and benefits, which are substantially the same for comparable positions for the Company's non-union employees. Four collective bargaining agreements expire in calendar 2008. One agreement expires in calendar 2009, and one agreement expires in calendar 2010.

14. Plant Restructuring

After a comprehensive review of its production capacities following the CPF acquisition in 2004, the Company completed a plant restructuring program in 2005 resulting in a restructuring charge of \$7,678,000. The restructuring charge consisted of a non-cash impairment charge of \$6,952,000 and a cash severance charge of \$726,000, which are included in Plant Restructuring in the Consolidated Statements of Net Earnings. The Company used two methods to determine fair value: (1) no value was assigned to machinery and equipment that could not be redeployed within the Company and where there was no ready market for the asset; and (2) quoted prices or prices for similar assets for real estate.

This restructuring program principally involved the closure of three processing facilities, including a green bean plant in upstate New York and corn plants in Wisconsin and Washington. In addition, the Company restructured the newly acquired Payette, Idaho facility through the removal of canned meat production to focus exclusively on dry beans. The rationalization of the Company's productive capacity has: (1) improved the Company's overall cost structure and competitive position; (2) addressed the excess capacity situation arising from the acquisition of CPF; and (3) mitigated the effect of inflationary pressures on the Company's raw material inputs such as steel and fuel.

The closure of the Washington corn processing facility coincided with an amendment to the Alliance Agreement with GMOI. Under the above amendment, the Blue Earth, Minnesota facility was removed from the Alliance Agreement due to a reduction in GMOI volume requirements and will be operated by the Company as a non-Alliance facility. Additionally, GMOI agreed to reimburse the Company in the future for remaining lease and depreciation costs at the Blue Earth facility which, on a net present value basis, approximate the closure costs associated with the Washington facility.

With the closure of the Washington corn processing facility in the fall of 2004, the Company's labeling and warehousing requirements at the Salem, Oregon leased distribution facility were dramatically

reduced. In 2006, the Company announced the phase out of the Salem labeling operation which resulted in a restructuring charge of \$1,754,000 consisting of a provision for future lease payments of \$1,306,000, a cash severance charge of \$369,000, and a non-cash impairment charge of \$79,000. The Company intends to use a portion of the facility for warehousing and will attempt to sublease the remaining unutilized portion of the facility until the February 2008 expiration of the lease.

The fiscal 2006 asparagus harvest, completed in the first quarter, represented a partial pack as GMOI was in process of moving the production of asparagus offshore from the Dayton, Washington manufacturing facility. As fiscal 2006 represents the final year of operation for the Dayton, Washington facility, the Company and GMOI have negotiated a definitive agreement related to the closure of this facility. Under the terms of the agreement, any costs incurred by the Company related to the asparagus production prior to March 31, 2006 will be paid by GMOI. The Company shall retain ownership of the real estate associated with the Dayton facility. In addition, the manufacturing equipment of the Dayton facility shall either be conveyed to GMOI, redeployed by the Company, or salvaged. Lastly, GMOI reduced the principal balance of the secured nonrecourse subordinated promissory note by \$466,000 to \$42,618,000, which represents the net book value of the equipment to be conveyed to GMOI or salvaged.

During 2006, the Company sold the previously closed corn processing facility in Washington for \$0.5 million in cash and a \$3.6 million note which carries an interest rate of 8% and is due in full on May 14, 2007. This note is secured by a mortgage on the property. The Company accounted for the sale under the installment method. During the first quarter of 2006, \$0.4 million of the gain was included in Other Expense (Income), net and an additional \$2.8 million of the gain on this sale was deferred in Other Long-Term Liabilities.

Notes to Consolidated Financial Statements

The following table summarizes the restructuring and related asset impairment charges recorded and the accruals established during 2005 and 2006:

	Severance	Long-Lived Asset Charges	Other Costs	Total
(In thousands)				
Total expected restructuring charge	\$ 1,097	\$ 5,287	\$ 3,214	\$ 9,598
Balance March 31, 2004	—	—	—	—
Second-quarter charge to expense	619	—	—	619
Third-quarter charge to expense	94	3,798	1,912	5,804
Fourth-quarter charge to expense	13	1,162	80	1,255
Loss on disposal of assets	—	(3,361)	—	(3,361)
Cash payments	(470)	—	—	(470)
Balance March 31, 2005	\$ 256	\$ 1,599	\$ 1,992	\$ 3,847
Second-quarter charge to expense	368	77	1,016	1,461
Third-quarter charge to expense	—	—	290	290
Disposal of assets	—	(1,676)	—	(1,676)
Cash payments	(458)	—	(527)	(985)
Fourth-quarter charge to expense	3	250	(84)	169
Balance March 31, 2006	\$ 169	\$ 250	\$ 2,687	\$ 3,106
Total costs incurred to date	\$ 928	\$ 5,037	\$ 527	\$ 6,492

In addition, \$771,000 was charged to cost of product sold in the second quarter of 2005 related to exiting a line of contract packing business.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Seneca Foods Corporation as of March 31, 2006 and the related consolidated statements of net earnings, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

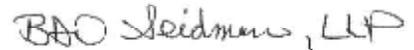
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seneca Foods Corporation as of March 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Seneca Foods Corporation's internal control over financial reporting as of March 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 9, 2006, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP
Milwaukee, Wisconsin

June 9, 2006



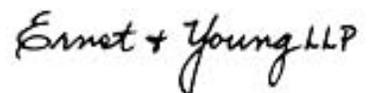
To the Board of Directors and Stockholders of
Seneca Foods Corporation
Marion, New York

We have audited the accompanying consolidated balance sheet of Seneca Foods Corporation and Subsidiaries as of March 31, 2005, and the related consolidated statements of net earnings, stockholders' equity, and cash flows for each of the two years in the period ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seneca Foods Corporation and Subsidiaries at March 31, 2005, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles.

Buffalo, New York
June 10, 2005



Shareholder Information and Quarterly Results

Shareholder Information and Quarterly Results

The Company's common stock is traded on The NASDAQ National Stock Market. The 4.1 million of Class A outstanding shares and 2.8 million Class B outstanding shares are owned by 281 and 269 shareholders of record, respectively. The high and low prices of the Company's common stock during each quarter of the past two years are shown below:

Class A: Quarter	2006		2005	
	High	Low	High	Low
First	\$18.48	\$15.75	\$20.00	\$17.92
Second	17.90	15.51	18.81	18.25
Third	20.88	17.25	19.00	18.00
Fourth	21.00	18.77	18.75	16.75

Class B: Quarter	2006		2005	
	High	Low	High	Low
First	\$20.00	\$16.00	\$19.45	\$18.25
Second	17.90	16.00	18.95	17.65
Third	20.77	17.50	19.10	18.25
Fourth	20.75	19.00	18.75	16.99

As of March 31, 2006, the most restrictive credit agreement limitation on the Company's payment of dividends and other distributions, such as purchases of shares, to holders of Class A or Class B Common Stock is an annual total limitation of \$500,000, reduced by aggregate annual dividend payments totaling \$23,000, which the Company presently pays on two outstanding classes of preferred stock. Payment of dividends to common stockholders is made at the discretion of the Company's Board of Directors and depends, among other factors, on earnings; capital requirements;

and the operating and financial condition of the Company. The Company has not declared or paid a common dividend in many years.

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

	First	Second	Third	Fourth
(In thousands, except per share data)				
Year ended March 31, 2006:				
Net sales	\$156,595	\$244,169	\$316,253	\$166,806
Gross margin	14,662	21,549	23,395	27,993
Net earnings	2,420	3,687	6,936	8,950
Basic earnings				
per common share	.22	.33	.62	.80
Diluted earnings				
per common share	.22	.33	.62	.80
Year ended March 31, 2005:				
Net sales	\$164,678	\$220,375	\$307,966	\$171,255
Gross margin	15,147	16,546	16,580	15,999
Net earnings	4,502	2,445	(1,513)	2,473
Basic earnings				
per common share	.40	.22	(.14)	.23
Diluted earnings				
per common share	.40	.22	(.14)	.23

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

Notice of Annual Meeting

The 2006 Annual Meeting of Shareholders will be held on Friday, August 4, 2006, beginning at 1:00 P.M. (CDT) at the offices of Seneca Foods Corporation at 418 East Conde Street, Janesville, Wisconsin. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders of record as of June 16, 2006.

Additional Information

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006, as filed with the Securities and Exchange Commission, will be provided by the Company to any shareholder who so requests in writing.

Requests should be sent to Philip G. Paras, Seneca Foods Corporation, 3736 South Main Street, Marion, New York 14505, or contact us via our web site at <http://www.senecafoods.com>, or email us at senecafoods@senecafoods.com.

Forward-Looking Statements

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

Seneca Foods Corporation

Directors

Arthur H. Baer
President
Hudson Valley Publishing, Inc.

Andrew M. Boas
General Partner
Carl Marks Management Company, L.P.

Robert T. Brady
President and Chief Executive Officer
Moog Inc.

Douglas F. Brush
Chairman and Business Development Officer
Sentry Group

G. Brymer Humphreys
President
Humphreys Farm Inc.

Kraig H. Kayser
President and Chief Executive Officer

Thomas Paulson
Chief Financial Officer
Tennant Company

Susan W. Stuart
Marketing Consultant

Arthur S. Wolcott
Chairman

Officers

Corporate

Arthur S. Wolcott
Chairman

Kraig H. Kayser
President and Chief Executive Officer

Paul L. Palmby
Executive Vice President and
Chief Operating Officer

Philip G. Paras
Chief Financial Officer

Carl A. Cichetti
Chief Information Officer

John D. Exner
General Counsel

Jeffrey L. Van Riper
Controller and Secretary

Sarah S. Mortensen
Assistant Secretary

Operations

Western Operations
Jon A. Brekken
Vice President

Technical Services & Development
Matt J. Henschler
Vice President

Accounting
Craig W. Knapp
Vice President

Procurement
Vincent J. Lammers
Vice President

Snack
James F. McClelland
Vice President and General Manager

Transportation
Gene W. Schaetten
Vice President

Customer Service
Richard L. Waldorf
Vice President

Eastern Operations
David W. Zentgrebe
Vice President

Sales and Marketing Groups

Dean E. Erstad
Senior Vice President

Branded Sales
James E. Blair
Vice President

International
Barbara J. deJong
Vice President

Private Label Retail
George E. Hopkins, III
Vice President

Food Service
Victoria A. Ninneman
Vice President

Marketing
Bruce S. Wolcott
Vice President

Corporate Offices

3736 South Main Street
Marion, New York 14505
Telephone (315) 926-8100

Independent Registered Public Accounting Firm

BDO Seidman, LLP
Milwaukee, Wisconsin

General Counsel

Jaeckle Fleischmann & Mugel, LLP
Buffalo, New York

Transfer Agent and Registrar

Seneca Foods Corporation
Suite 1010, 1605 Main Street
Sarasota, Florida 34236
Telephone (941) 366-9707

Manufacturing Plants and Warehouses

Food Group

Buhl, Idaho
New Plymouth, Idaho
Payette, Idaho
Princeville, Illinois
Arlington, Minnesota
Blue Earth, Minnesota
Bricelyn, Minnesota
Glencoe, Minnesota
LeSueur, Minnesota
Montgomery, Minnesota
Rochester, Minnesota
Geneva, New York
Leicester, New York
Marion, New York
Salem, Oregon
Dayton, Washington
Yakima, Washington
Baraboo, Wisconsin
Cambria, Wisconsin
Clyman, Wisconsin
Coleman, Wisconsin
Cumberland, Wisconsin
Gillett, Wisconsin
Janesville, Wisconsin
Mayville, Wisconsin
Oakfield, Wisconsin
Ripon, Wisconsin

Non-Food Group

Penn Yan, New York

Reserved for Notes