Seneca Foods Corporation

Annual Report

2004

Cover image:

One-of-a-kind ear of corn water tower

located at Seneca Foods' Rochester, Minnesota processing facility

photographed by Dean Riggott Photography, 2004

Financial Highlights

Years ended March 31,	2004	2003	Increase (Decrease)
Net sales	$ 887,756,000	$ 644,379,000	37.8%
Net earnings	12,941,000	9,050,000	43.0
Stockholders' equity	190,249,000	159,364,000	19.4
Diluted earnings per share	$ 1.17	$ .88	33.0%
Total Stockholders' equity per equivalent common share	17.00	15.59	9.0

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 89% of the food processing volume. Frozen vegetables represent 9% of food processing volume. Fruit products account for the remaining 2% 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 44% of the processed foods are packed under private labels and 18% sold to institutional food distributors. The remaining 28% is sold under an Alliance Agreement with General Mills Operations, Inc.

Marion, New York
June 11, 2004

To Our Shareholders

For those of you that have owned our shares for many years, you will recognize that fiscal year 2004 was a milestone year for your company due to its acquisition of Chiquita Brands' Processed Foods subsidiary. This acquisition has created the largest canned vegetable company in the world with a number one share in private label, number one share in food service, number one share in export, and a strong number three share in branded canned vegetables. It has resulted in a significant increase in revenues for Seneca, and has importantly positioned us for long-term success supplying the rapidly consolidating world of food retailing and food service provisioning.

Our fiscal year 2004 net income was $12,941,000 or $1.17 per share versus $9,050,000 or $0.88 per share in fiscal year 2003 on sales of $887,756,000 versus $644,379,000. Because our business operates in mature categories, our sales growth is almost exclusively due to the acquisition.

From the beginning of the negotiations with Chiquita, we had envisioned divesting a portion of the assets to help pay down debt. In June and August, we sold four of the 12 facilities acquired to Lakeside Foods, Inc. for $46 million including the inventories associated with those facilities. This allowed us to decrease our short-term borrowing facility by a like amount, and that combined with the fact that we issued $16 million in convertible preferred stock to Chiquita as part of the acquisition, ensured that our balance sheet remains strong.

We viewed the Chiquita Processed Foods acquisition as a deal that we had been anticipating for years. Beginning in 1995 with the acquisition of six vegetable processing plants from Pillsbury, followed by several smaller acquisitions, Seneca has been taking a leadership role in consolidating the processed vegetable industry. In fact, Chiquita had also been an active consolidator, acquiring four smaller processors over the past six years. The Chiquita Processed Foods acquisition was the latest and largest in a series of acquisitions that we viewed as necessary in order to drive down costs to remain competitively priced at the store shelf. You will see on page 24, the roots of our company and the long history of many of these companies that came together to form today's Seneca Foods.

As well prepared and experienced as we are in acquisitions, there can be little question of the challenges faced by our employees in integrating Chiquita Processed Foods into our company. We did not make it any easier on ourselves by divesting four plants and the related businesses shortly after the acquisition. If judged by customer retention and reductions in SG&A costs, we have made great progress toward our goal of profitably integrating the business into Seneca. However, much remains to be completed in terms of purchasing, production and logistics synergies, and the company is proactively working toward the day when the integration is successfully finished.

What does this acquisition mean to Seneca in terms of strategic positioning? While we added several new products such as canned meats, dry soak beans, and pumpkin, as well as strong regional brands such as Stokely's®, Read®, Festal®, and Diamond A®, this acquisition ultimately has positioned the company to be the primary supplier of choice to the retail and food service industry for their own labels. Customer owned brands now account for approximately 50% of all canned vegetable sales. Private label, or Own Brand as the customers prefer to call it, is the area that has the greatest meaning to our customers and, therefore, to Seneca. We sell our customer base dozens of different canned and frozen vegetable products in many different sizes for their own label. Our customers today have very high expectations from their private label suppliers to sell them high quality product with very short lead times. We have positioned ourselves to meet those needs.

As part of this strategy, Seneca has embarked on an ambitious plan to build warehouses and to install high speed label lines. Currently, we are building warehouses at our facilities in Geneva, NY and Cambria and Janesville, WI. This will allow us to exit leased warehousing at distant locations reducing interplant freight and damage. In addition, Seneca has purchased the latest technology available in electronic sorting equipment in order to exceed the quality expectations of our customers and consumers.

While we move aggressively ahead with our plans, we are experiencing familiar and some unfamiliar challenges. For example, Seneca is facing significant inflationary pressures on its raw material inputs such as steel for our cans, produce, and fuel. These rapidly increasing input costs have created an environment whereby our case costs are going up, and we are raising prices to reflect these increased costs. What remains to be seen is the impact on consumption of our products when these price increases are introduced to the consumer. We are anticipating some reduction in sales, and have closed a plant in northeastern Wisconsin to adjust to these new realities. It is not inconceivable that further adjustments in production will be necessary, depending on consumer takeaway.

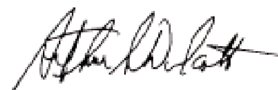
Additionally, the cost of being a public company has increased significantly. We continue to face more legal and regulatory reporting requirements that cost time and money including higher legal, auditing, and other outside service provider fees. The added expenses of being a public company are being borne by you as shareholders.

Also, as part of the new regulations, Seneca is standing a new independent director, Tom Paulson, Chief Financial Officer of Innovex, Inc. for election this year to assure that we are in compliance with all of the independence rules with respect to the Board and its Committees. Tom is familiar with Seneca, having been a Vice President--Finance with Pillsbury and an outside observer to our Board proceedings for several years as a representative of Pillsbury.

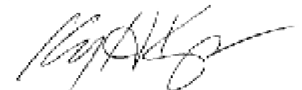
Our Alliance with General Mills is facing some challenges as well. This year's volume requirements by General Mills are down somewhat, which will impact our overhead absorption and resulting profitability. We remain in very close contact discussing ways of reducing costs and adding profitable opportunities into the Alliance. As we enter our 10th year, it still stands as a successful example of creating efficiencies in production to assure the lowest possible costs.

Overall, we are optimistic about the future and the opportunities that the new Seneca will have to create shareholder value. Our approach this coming year will be to continue our work to integrate the acquisition and harvest the cost savings associated with the combination. These efforts should result in improving profitability and cash generation. While we remain in a commodity business with a heavy reliance on agriculture, our strategic efforts will go toward improving the overall margins and reducing the cyclical pressures on the underlying business.

Finally, we wish to thank our employees for their hard work and splendid efforts this year. The Chiquita heritage employees have joined with the Seneca employees to work together in a professional manner to get the job done. We also want to thank Mike Haney, President of the Vegetable Division, who announced that he will be retiring at the end of this year. Mike joined Seneca with our acquisition of Libby's in 1982, and is ending a 44-year career in an industry where he is considered one of its deans. His contribution to Seneca's success over the years has been enormous and we will miss his strong leadership. Paul Palmby, another experienced veteran of our company, will take his role as President in January.



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,	2004	2003	2002	2001	2000
Net sales	$887,756	$644,379	$651,075	$674,300	$621,078
Operating earnings (before interest and other (income) expense, net)	$ 36,476	$ 33,035	$ 20,406	$ 20,795	$ 24,289
Net earnings	12,941	9,050	1,140	813	4,320
Basic earnings per common share	1.18	.89	.11	.08	.42
Diluted earnings per common share	1.17	.88	.11	.08	.42
Working capital	$187,764	$172,382	$163,606	$163,367	$168,972
Inventories	270,283	141,649	181,835	229,170	203,173
Net property, plant, and equipment	181,907	132,969	155,189	167,450	179,146
Total assets	533,903	379,540	403,576	444,233	438,540
Long-term debt and capital lease obligations	160,987	133,337	156,100	171,346	189,968
Stockholders' equity	190,249	159,364	151,123	149,759	148,999
Additions to property, plant, and equipment	$ 23,109	$ 6,832	$ 13,423	$ 15,395	$ 19,875
Interest expense, net	16,135	13,757	17,441	18,662	16,147
Net earnings/average equity	7.6%	6.0%	0.9%	0.7%	3.6%
Earnings before taxes/sales	2.3%	2.3%	0.3%	0.2%	1.1%
Net earnings/sales	1.5%	1.4%	0.2%	0.1%	0.7%
Long-term debt/equity	85%	84%	103%	114%	127%
Current ratio	2.2:1	3.4:1	3.0:1	2.5:1	3.1:1
Stockholders' equity per common share	$ 19.97	$ 17.64	$ 16.46	$ 16.26	$ 16.16
Class A National Market System closing price range	21.97-16.20	18.75-10.75	14.75-11.50	15.25-11.00	15.50-10.25
Class B National Market System closing price range	22.88-16.85	18.38-12.75	14.78-12.00	14.88-10.75	14.75-10.00
Common cash dividends declared per share	-	-	-	-	-
Price earnings ratio	16.0	13.6	84.3	110.2	17.1

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 87% 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) effective integration of the recent Chiquita Processed Foods acquisition ("the Acquisition"); (3) drive growth in earnings through the use of cash flow to de-leverage the balance sheet and through opportunistic, targeted acquisitions; and (4) expansion of 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.

Purchase Price Allocation

The purchase price to acquire CPF was allocated based on the fair value of the assets and liabilities acquired. The Company obtained an independent valuation of its property, plant, and equipment, and internally determined the fair value of its other assets and liabilities. The purchase price of $130.3 million has been calculated as follows (in millions):

Cash	$ 110.0
Issuance of convertible preferred stock	16.1
Closing costs	4.2
Purchase price	$ 130.3

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

Current assets	$ 137.8
Property, plant and equipment	87.8
Other assets	6.5
Current liabilities	(69.6)
Long-term debt	(27.9)
Other non-current liabilities	(4.3)
Total	$ 130.3

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 that were previously closed by Chiquita Processed Foods and designated as assets held for sale during the fiscal year, generating $2.5 million in additional proceeds used for debt repayment.

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, 2004, the outstanding balance on the Revolver was $58.4 million. In order to maintain availability of funds under the facility, we pay a 0.375% 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 May through October

and depleted through the remaining six months. Accordingly, our need to draw on the Revolver may fluctuate significantly throughout the year.

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

During the quarter ended September 27, 2003, the Company refinanced $42.5 million of debt outstanding under the revolving credit facility with new term debt from John Hancock Life Insurance Company. At issuance, the John Hancock note totaled $75.0 million and included the refinance of $32.5 million in existing John Hancock debt. The John Hancock note has a fixed interest rate of 8.03%, a fifteen-year amortization and a ten-year term. The Company did not issue any other significant long-term debt in 2004.

The Company has three major long-term debt instruments: 1) a $73.7 million secured note payable to John Hancock Life Insurance Company, with an interest rate of 8.03%, which is due through 2014; 2) a $50.2 million secured nonrecourse note payable to GMOI, with an interest rate of 8%, which is due through 2010; and 3) a $12.0 million secured note payable to The Prudential Insurance Company of America, with an interest rate of 10.78%, which is due through 2005.

At March 31, 2004, scheduled maturities of long-term debt in each of the five succeeding fiscal years are as follows (in thousands):

2005	$ 20,772
2006	14,375
2007	8,524
2008	8,328
2009	8,480

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 believe that we are currently in compliance with all such financial covenants, and were in compliance therewith as of March 31, 2004. The most restrictive financial covenant in the credit agreements is the minimum fixed charge coverage ratio.

Capital Expenditures

Capital expenditures in 2004 totaled $23.1 million and include $7.2 million of construction in progress on two warehouse expansion projects in Janesville and Cambria, Wisconsin, equipment replacement and other improvements, and economic return and cost saving projects. We plan to finance $8.0 million of the Janesville and Cambria warehouse projects in the first quarter of 2005 through a fifteen-year fully amortizing mortgage with a fixed interest rate of 6.35%. The total cost of the Janesville and Cambria warehouse projects is expected to aggregate $11.1 million.

Inventories

In 2004, inventories increased by $125.5 million primarily reflecting the effect of seasonal production from the eight plants acquired in the CPF acquisition. Inventories consist primarily of finished canned vegetable products and raw materials and supplies including cans and ends.

Critical Accounting Policies

During the year ended 2004, the Company sold for cash, on a bill and hold basis, $212.8 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.

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

Obligations and Commitments

As of March 31, 2004, 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, 2004

	2005	2006-7	2008-9	2010 and beyond
Long-term debt	$ 20,772	$ 22,899	$ 16,808	$114,721
Interest	14,760	24,257	20,287	39,227
Notes payable	—	—	58,395	—
Operating lease obligations	13,298	20,936	11,916	8,082
Pension	2,548	5,657	6,765	21,809
Capital lease obligations	747	1,556	1,262	3,741
Total	$ 52,125	$ 75,305	$115,433	$187,580

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

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, 2004, we had $7.1 million in outstanding standby letters of credit.

Cash Flows

In 2004, our cash and cash equivalents decreased by $60.4 million, which is primarily due to the net impact of $1.6 million provided by operating activities, $85.9 million used in investing activities, and $23.9 million provided by financing activities.

Operating Activities

Cash provided by operating activities decreased $67.2 million to $1.6 million in 2004. The decrease reflects higher inventory balances associated with the seasonal production from the eight plants acquired in the CPF acquisition, which were primarily funded through the issuance of debt. 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 May through October, 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 $68.8 million in 2003 from $66.8 million in 2002. The increase is primarily a function of higher operating earnings.

Investing Activities

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.

Cash used in investing activities was $6.2 million in 2003 and $11.7 million in 2002, principally reflecting capital expenditures.

Financing Activities

Cash provided by financing activities was $23.9 million in 2004. During 2004, we borrowed cash to fund the CPF acquisition. Cash used in financing activities was $22.6 million in 2003 and $35.6 million in 2002 reflecting debt reduction.

RESULTS OF OPERATIONS

Fiscal 2004 versus Fiscal 2003

Classes of similar products/services:	2004	2003	2002
		(In thousands)	
Net Sales:			
GMOI	$247,992	$252,059	$258,412
Canned vegetables	584,010	328,907	333,048
Frozen vegetables	28,900	30,422	25,165
Fruit and chip products	15,347	20,784	19,982
Other	11,507	12,207	14,468
	$887,756	$644,379	$651,075

Net sales for fiscal 2004 increased $243.4 million, or 38%, from $644.4 million to $887.8 million. The increase reflects ten months of operating activity related to the CPF acquisition which resulted in a 35% increase in vegetable unit volume.

Cost of product sold as a percentage of sales increased from 91.6% in 2003 to 91.9% in 2004. The increase in the percentage of the cost of product sold reflects higher production costs in fiscal 2004

associated with unfavorable manufacturing variances principally the result of drought conditions in the Midwest growing areas and extreme heat in the Northwest growing areas, followed by an early killing frost which included the late-season growing areas of Illinois. The drought and hot weather conditions impacted crop yields, plant recovery rates and further resulted in the bunching of crop maturities whereby certain contracted raw produce was unable to be harvested. Although we were able to increase selling prices over the second half of the fiscal year, the effect of these increases was more than offset by the higher manufacturing costs.

Selling, General and Administrative expense increased as a percentage of sales from 3.3% to 4.0% due in large part to the fact that GMOI sales do not involve selling expense and GMOI sales decreased as a percentage of total sales from 39.1% in 2003 to 27.9% in 2004. In addition, outside warehousing expense increased in connection with the CPF acquisition.

Interest expense increased from $13.8 million to $16.1 million reflecting the new debt supporting the CPF acquisition.

Other income of $0.2 million in 2004 reflects the gain on the sale of certain fixed assets. Other expense of $4.7 million in 2003 reflects a non-cash impairment charge attributable to idle fixed assets.

As a result of the above factors, pre-tax earnings increased from $14.6 million in 2003 to $20.5 million in 2004. The effective tax rate was 37.0% in 2004 and 37.8% in 2003.

Fiscal 2003 versus Fiscal 2002

Net sales for fiscal 2003 decreased $6.7 million from $651.1 million to $644.4 million primarily reflecting a reduction in GMOI vegetables sold from $258.4 million in 2002 to $252.1 million in 2003.

Cost of product sold as a percentage of sales decreased from 93.6% in 2002 to 91.6% in 2003 primarily reflecting an improved selling price environment in canned vegetables as industry supply levels returned to more normal levels following the Y2K phenomenon in the 2001 calendar year which temporarily impacted consumption levels and resulted in an inventory oversupply situation.

Selling, General and Administrative expense increased from $21.1 million to $21.3 million and as a percentage of sales from 3.2% to 3.3% reflecting general wage and benefit increases in the administrative expense area.

Interest expense decreased $3.7 million to $13.8 million as a result of lower average debt balances and the lower interest rate environment.

Other expense of $4.7 million and $1.0 million in 2003 and 2002 reflects non-cash impairment charges for idle fixed assets.

As a result of the improved selling price environment in canned vegetables, pre-tax earnings increased from $2.0 million in 2002 to $14.6 million in 2003. The effective tax rate was 37.8% in 2003 and 41.6% in 2002.

Recently Issued Accounting Standards

In December 2003, the FASB issued SFAS No. 132 R (Revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement requires revisions to employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition provisions of SFAS No. 87 or SFAS No. 106. The annual disclosure requirements are effective for 2004 and reflected in these financial statements.

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 bank lines of credit with variable interest rates to finance seasonal working capital requirements. The Company maintains investments in cash equivalents ($4.6 million as of March 31, 2004) and does have investments in a modest amount of marketable securities. Long-term debt represents secured and unsecured notes and debentures, certain notes payable to insurance companies used to finance long-term investments such as business acquisitions, and capital lease obligations. Long-term debt bears interest at fixed and variable rates. Since the majority of the Company's debt is at a fixed rate, a 1% change in interest rates would have a minimal 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 sinking fund requirements and related weighted-average interest rates by expected maturity date. Weighted-average interest rates on variable-rate debt are based on current rates as of March 31, 2004.

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.

Interest Rate Sensitivity of Long-Term Debt, Short-Term Debt and Short-Term Investments
March 31, 2004
(In Thousands)

EXPECTED MATURITY DATE

	2005	2006	2007	2008	2009	Thereafter	Total/ Weighted Average	Estimated Fair Value
Fixed-rate L/T debt:								
Principal cash flows	$ 21,083	$ 14,700	$ 8,869	$ 8,698	$ 8,870	$ 95,381	$157,601	$157,534
Average interest rate	9.12%	7.37%	7.14%	7.40%	7.43%	7.88%	7.90%	—
Variable-rate L/T debt:								
Principal cash flows	$ 437	$ 441	$ 445	$ 352	$ 150	$ 23,080	$ 24,905	$ 24,905
Average interest rate	2.11%	2.10%	2.09%	2.26%	3.37%	3.25%	3.17%	—
Variable-rate S/T debt:								
Principal cash flows							$ 38,039	$ 38,039
Average interest rate							2.98%	—
Short-term investments:								
Average balance							$ 11,422	$ 11,422
Average interest rate							1.18%	—

Consolidated Statements of Net Earnings

Seneca Foods Corporation and Subsidiaries

(In thousands of dollars, except share amounts)

Years ended March 31,	2004	2003	2002
Net sales	$887,756	$644,379	$651,075
Costs and expenses:			
Cost of product sold	816,090	590,079	609,574
Selling, general, and administrative expense	35,190	21,265	21,095
Other (income) expense, net	(207)	4,719	1,011
Interest expense, net of interest income of $395, $834, and $301, respectively	16,135	13,757	17,441
	867,208	629,820	649,121
Earnings before income taxes	20,548	14,559	1,954
Income taxes	7,607	5,509	814
Net earnings	$ 12,941	$ 9,050	$ 1,140
Basic earnings per common share	$ 1.18	$ .89	$ .11
Diluted earnings per common share	$ 1.17	$ .88	$ .11

See notes to consolidated financial statements.

Consolidated Balance Sheets

Seneca Foods Corporation and Subsidiaries
(In thousands)

March 31,	2004	2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,570	$ 64,984
Marketable securities	4,465	—
Accounts receivable, less allowance for doubtful accounts of $945 and $761, respectively	46,180	31,799
Inventories:		
Finished products	202,573	88,769
In process	15,365	13,911
Raw materials and supplies	52,345	38,969
Deferred income taxes	6,615	3,300
Assets held for sale	2,931	—
Refundable income taxes	451	715
Prepaid expenses	12,098	1,254
Total Current Assets	347,593	243,701
Other assets	4,403	2,870
Property, Plant, and Equipment:		
Land	9,222	7,850
Building	112,061	96,730
Equipment	313,494	254,536
	434,777	359,116
Less accumulated depreciation and amortization	252,870	226,147
Net Property, Plant, and Equipment	181,907	132,969
Total Assets	$533,903	$379,540
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	$ 58,395	$ —
Accounts payable	37,362	22,730
Accrued expenses	42,553	25,602
Current portion of long-term debt and capital lease obligations	21,519	22,987
Total Current Liabilities	159,829	71,319
Long-term debt	154,428	127,107
Capital lease obligations	6,559	6,230
Other liabilities	7,790	6,497
Deferred income taxes	15,048	9,023
Total Liabilities	343,654	220,176
Commitments (Note 14)	—	—
Stockholders' Equity:		
Preferred stock	56,338	41,656
Common stock	2,859	2,849
Total Capital Stock	59,197	44,505
Additional paid-in capital	15,989	14,616
Accumulated other comprehensive income	2,324	422
Retained earnings	112,739	99,821
Total Stockholders' Equity	190,249	159,364
Total Liabilities and Stockholders' Equity	$533,903	$379,540

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seneca Foods Corporation and Subsidiaries
(In thousands)

Years ended March 31,	2004	2003	2002
Cash flows from operating activities:			
Net earnings	$ 12,941	$ 9,050	$ 1,140
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	29,393	22,597	24,546
Deferred income taxes	1,107	3,520	969
Gain on the sale of assets	(207)	—	—
Impairment provision and other expenses	—	4,719	1,011
Changes in operating assets and liabilities:			
Accounts receivable	9,991	236	(525)
Inventories	(41,122)	40,186	47,335
Prepaid expenses	(10,782)	(892)	946
Accounts payable, accrued expenses, and other liabilities	(1,686)	(11,588)	(6,630)
Income taxes	1,987	942	(2,000)
Net cash provided by operations	1,622	68,770	66,792
Cash flows from investing activities:			
Acquisition	(114,172)	—	—
Proceeds from the sale of assets	48,808	677	448
Additions to property, plant, and equipment	(23,109)	(6,832)	(13,423)
Cash received from acquisition	2,560	—	—
Escrow fund	—	—	1,316
Net cash used in investing activities	(85,913)	(6,155)	(11,659)
Cash flows from financing activities:			
Borrowings on notes payable	396,568	—	138,931
Payments on notes payable	(363,548)	—	(163,431)
Payments of long-term debt and capital lease obligations	(51,903)	(22,834)	(19,124)
Proceeds from issuance of long-term debt	42,562	235	8,079
Other assets	221	18	17
Preferred dividends paid	(23)	(23)	(23)
Net cash provided by (used in) financing activities	23,877	(22,604)	(35,551)
Net (decrease) increase in cash and cash equivalents	(60,414)	40,011	19,582
Cash and cash equivalents, beginning of year	64,984	24,973	5,391
Cash and cash equivalents, end of year	$ 4,570	$ 64,984	$ 24,973
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 15,023	$ 15,122	$ 17,973
Income taxes	5,768	2,025	1,844
Supplemental information of non-cash investing and financing activities:			

$16.1 million of Preferred Stock was issued in partial consideration for the CPF acquisition. The Company assumed $9.1 million of long-term debt related to the CPF acquisition.

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Seneca Foods Corporation and Subsidiaries

(In thousands, except share amounts)

	Preferred Stock									
	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	Class A Common Stock Par Value $.25	Class B Common Stock Par Value $.25	Additional Paid-In Capital	Accumulated 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, 2002	200,000	807,240	—	3,570,861	3,823,115	2,764,005				
March 31, 2003	200,000	807,240	—	3,485,506	3,908,470	2,764,005				
March 31, 2004	200,000	807,240	967,742	3,443,596	3,950,380	2,764,005				
Balance March 31, 2001	$50	$20	—	$42,671	$953	$1,872	$13,555	$961	$89,677	
Net earnings	—	—	—	—	—	—	—	—	1,140	$ 1,140
Cash dividends paid on preferred stock	—	—	—	—	—	—	—	—	(23)	—
Preferred stock conversion	—	—	—	(66)	2	—	64	—	—	—
Common stock conversion	—	—	—	—	1	(1)	—	—	—	—
Net unrealized gain on investments	—	—	—	—	—	—	—	247	—	247
Balance March 31, 2002	50	20	—	42,605	956	1,871	13,619	1,208	90,794	$ 1,387
Net earnings	—	—	—	—	—	—	—	—	9,050	$ 9,050
Cash dividends paid on preferred stock	—	—	—	—	—	—	—	—	(23)	—
Preferred stock conversion	—	—	—	(1,019)	22	—	997	—	—	—
Minimum pension liability	—	—	—	—	—	—	—	(778)	—	(778)
Net unrealized loss on investments	—	—	—	—	—	—	—	(8)	—	(8)
Balance March 31, 2003	50	20	—	41,586	978	1,871	14,616	422	99,821	$ 8,264
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

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 - The Company conducts its business almost entirely in food processing, operating 30 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.

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. The risk associated with the concentration is limited due to the large number of wholesalers and retailers and their geographic dispersion. The Company places substantially all 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, foreign, and state income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities.

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

A reconciliation of basic earnings per share with diluted earnings per share follows:

Years ended March 31,	2004	2003	2002
	(In thousands, except share amounts)		
Basic			
Net earnings	$12,941	$ 9,050	$ 1,140
Deduct preferred stock dividends paid	23	23	23
Basic earnings	$12,918	$ 9,027	$ 1,117
Weighted average common shares outstanding	10,965	10,158	10,158
Basic earnings per share	$ 1.18	$ .89	$ .11
Diluted			
Basic earnings	$12,918	$9,027	$ 1,117
Add dividends on convertible preferred stock	20	20	20
Earnings applicable to common stock on a diluted basis	$12,938	$9,047	$ 1,137
Shares used in calculating basic earnings per share above	10,965	10,158	10,158
Additional shares to be issued under full conversion of preferred stock	67	67	67
Total shares for diluted	11,032	10,225	10,225
Diluted earnings per share	$ 1.17	$ .88	$ .11

Basic weighted average common shares outstanding includes participating preferred shares.

Depreciation - 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. Depreciation and capital lease amortization was $28,676,000, $22,597,000, and $24,546,000 in 2004, 2003, and 2002, 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 recognized when the carrying value of an asset exceeds its fair value. The

Company assesses its long-lived assets for impairment when ever there is an indicator of impairment. There were no impairment losses in 2004. Impairment losses of $4,719,000 and $690,000 were recognized in 2003 and 2002, respectively, and were included in Other (Income) Expense, net (see Other Income and Expense, note 11).

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.

Recently Issued Accounting Standards - In December 2003, the FASB issued SFAS No. 132 R (Revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement requires revisions to employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition provisions of SFAS No. 87 or SFAS No. 106. The annual disclosure requirements were effective for 2004 and are reflected in these financial statements.

2. Common Stock of Moog Inc.

Marketable securities include the Company's investment in the Class B Common Stock of Moog Inc. totaling $4,465,000 as of March 31, 2004 . The investment of $2,683,000 as of March 31, 2003 was included in other assets. The investment is classified as an available-for-sale security and is carried at fair value. There were no realized gains or losses during 2004, 2003, and 2002, and gross unrealized holding gains were $3,749,000, $1,967,000, and $1,980,000 as of March 31, 2004, 2003 and 2002, respectively. The unrealized gains are recorded, net of tax, in accumulated other comprehensive income.

During 2004, the Company decided to sell this investment, therefore it was reclassified from other assets to marketable securities. Subsequent to 2004 year end, this investment was sold, providing proceeds of $4,578,000.

3. Lines 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 with various banks, under which $118,247,000 was initially borrowed. As of March 31, 2004, the outstanding balance on the revolver was $58,395,000, with a weighted average interest rate of 2.84%, and is included in notes payable on the Consolidated Balance Sheet. The $200 million revolver is secured by accounts receivable and inventory with a carrying value of $316,463,000. There were no bank borrowings under lines of credit as of March 31, 2003. The Company had $7,120,000 and $7,808,000 of outstanding standby letters of credit as of March 31, 2004 and 2003, respectively.

4. Long-Term Debt

	2004	2003
	(In thousands)	
Secured nonrecourse subordinated promissory note, 8.00%, due through 2010	$ 50,208	$ 53,833
Secured note payable to insurance company, 8.03% and 10.81%, due through 2014 and 2009	73,675	32,500
Secured note payable to insurance company, 10.78%, due through 2005	12,000	24,000
Secured Industrial Revenue Development Bonds, 3.24% and 3.59%, due through 2029	22,630	22,630
Secured Industrial Revenue Development Bond, 3.37%, due through 2012	1,200	—
Unsecured subordinated promissory note, 8.00%	—	4,978
Secured Industrial Revenue Development Bond, 5.69%, due through 2010	3,763	4,319
Secured notes payable to utility company, 3.00%, due through 2009	1,956	2,546
Unsecured Industrial Revenue Development Bond, 8.50%, due through 2006	2,500	—
Secured Industrial Revenue Development Bond, 5.61%, due through 2009	1,770	2,318
Unsecured Industrial Revenue Development Bond, 7.75%, due through 2006	3,000	—
Other	2,498	2,530
	175,200	149,654
Less current portion	20,772	22,547
	$154,428	$127,107

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 believe that we are currently in compliance with all such financial covenants, and were in compliance therewith as of March 31, 2004. The most restrictive financial covenant in the credit agreements is the minimum fixed charge coverage ratio.

As of March 31, 2004, 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 $23,830,000, 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 $200 million revolver is $427,199,000.

Debt repayment requirements for the next five fiscal years are:

	(In Thousands)
2005	$ 20,772
2006	14,375
2007	8,524
2008	8,328
2009	8,480

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 2024. Generally, operating leases provide for early purchase options one year prior to expiration.

Leased assets under capital leases consist of the following:

	2004	2003
	(In thousands)	
Land	$ 67	$ 67
Buildings	1,033	1,033
Equipment	11,313	9,711
	12,413	10,811
Less accumulated amortization	9,372	8,215
	3,041	2,596
Assets held for sale	340	-
	$ 3,381	$ 2,596

The following is a schedule by year of minimum payments due under leases as of March 31, 2004:

	Operating	Capital
	(In thousands)	
Years ending March 31:		
2005	$13,298	$ 1,020
2006	11,747	1,016
2007	9,189	1,016
2008	7,193	924
2009	4,723	719
2010-2024	8,082	4,306
Total minimum payment required	$54,232	$ 9,001
Less interest		1,695
Present value of minimum lease payments		7,306
Amount due within one year		747
Long-term capital lease obligations		$ 6,559

Rental expense in 2004, 2003, and 2002 was $20,538,000, $13,077,000, and $12,545,000 respectively.

6. Income Taxes

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

	2004	2003	2002
		(In thousands)	
Current:			
Federal	$4,938	$1,529	$ 50
State	1,562	460	93
	6,500	1,989	143
Deferred:			
Federal	1,009	3,150	600
State	98	370	71
	1,107	3,520	671
Total income taxes	$7,607	$5,509	$ 814

State net operating loss carryforwards of approximately $596,000, expiring through March 31, 2022, are available to offset future state tax expense.

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

	2004	2003	2002
Computed (expected tax rate)	35.0%	35.0%	34.0%
Tax-exempt income	(0.7)	(1.5)	(5.9)
Other permanent differences not deductible	1.1	0.4	2.1
State income taxes (net of federal tax benefit)	5.2	3.7	6.4
Other	(3.6)	0.2	5.0
Effective tax rate	37.0%	37.8%	41.6%

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of March 31, 2004 and 2003:

	2004	2003
	(In thousands)	
Deferred tax liabilities:		
Basis and depreciation difference	$15,608	$15,872
Other comprehensive income	1,425	290
Other	309	-
	17,342	16,162
Deferred tax assets:		
Inventory valuation	1,534	58
Future tax credits	-	3,403
Net operating loss carryforwards	25	404
Employee benefits	2,697	1,845
Pension	2,142	1,857
Insurance	2,025	1,108
Deferred gain on sale/leaseback	486	569
Contributions	-	808
Other	-	387
	8,909	10,439
Net deferred tax liability	$ 8,433	$ 5,723

Net current deferred tax assets of $6,615,000 and $3,300,000 as of March 31, 2004 and 2003, respectively, are recognized in the Consolidated Balance Sheets. Also recognized are net non-current deferred tax liabilities of $15,048,000 and $9,023,000 as of March 31, 2004 and 2003, respectively.

7. Stockholders' Equity

Preferred Stock – The Company has issued a class of preferred stock ("Participating Preferred Stock") which is convertible, and participating. There are 3,443,596 shares outstanding as of March 31, 2004. These shares are convertible immediately on a one-for-one basis into shares of Class A Common Stock subject to antidilution adjustments. There were no dividends on this class of stock. These shares have a liquidation value of $12 per share. This preferred stock has the right to receive dividends or distributions at a rate per share equal to the amount of any dividend or distribution declared or made to Class A Common Stock. In addition, this preferred stock has certain distribution rights upon liquidation.

As part of the financing of the CPF acquisition, the Company issued 967,742 shares of 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. This class of stock has a par value of $.025 per share and a stated value of $15.50 per share.

The outstanding 10% cumulative, convertible, voting preferred stock consists of 407,240 Series A shares, convertible at the rate of one common share of Class A and Class B for every twenty

preferred shares, and 400,000 Series B shares, which carry a one common share of Class A and Class B for thirty conversion rate. The Series A and B shares have a $.25 stated value and a $.025 par value. There are 2,633,333 shares authorized of Class A $.025 par value stock, which are unissued and undesignated. In addition, there are 30,000 shares of no par stock, which are also unissued and undesignated. The Company paid dividends totaling $20,181, or $.025 per share, to the holders of this 10% preferred stock for the years ended March 31, 2004 and 2003. In addition, the Company paid dividends totaling $3,000 or $.015 per share to the holders of the 6% preferred cumulative, $.25 par value, voting stock.

The Company has 200,000 shares of 6%, cumulative, voting, $.25 stated value, preferred stock which is callable at par value of $.25 per share.

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.

Unissued shares of common stock reserved for conversion privileges were 33,695 of Class A and Class B as of March 31, 2004 and 2003. Additionally, there were 3,443,596 and 3,485,506 shares of Class A reserved for conversion of the Participating Preferred Stock as of March 31, 2004 and 2003, respectively.

Comprehensive Income – Net unrealized gains and losses are net of their related provision for income taxes.

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, 2004 and a statement of the funded status as of March 31 of both years:

	2004	2003
	(In thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 41,369	$ 34,368
Service cost	2,546	2,571
Interest cost	3,519	2,334
Actuarial gain	1,227	3,570
Acquisition	20,821	-
Benefit payments and expenses	(2,491)	(1,474)
Benefit obligation at end of year	$ 66,991	$ 41,369
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 28,781	$ 33,350
Actual return (loss) on plan assets	13,603	(4,992)
Employer contributions	241	1,897
Benefit payments and expenses	(2,491)	(1,474)
Acquisition	19,553	-
Fair value of plan assets at end of year	$ 59,687	$ 28,781

	2004	2003
	(In thousands)	
Funded Status		
Funded status at end of year	$ (7,304)	$ (12,588)
Unrecognized transition asset	(2,161)	(2,437)
Unrecognized loss	963	10,137
Accrued benefit cost	$ (8,502)	$ (4,888)
Accrued benefit liability	(8,502)	(6,144)
Accumulated other comprehensive income	-	1,256
Net amount recognized	$ (8,502)	$ (4,888)

The Plan holds the Company's common stock with a fair market value of $3,972,000.

The following table provides the components of net periodic benefit cost for the Plan for fiscal years 2004, 2003, and 2002:

	2004	2003	2002
	(In thousands)		
Service cost	$2,545	$2,571	$2,150
Interest cost	3,519	2,334	2,232
Expected return on plan assets	(3,850)	(3,005)	(2,639)
Amortization of transition asset	(276)	(276)	(276)
Amortization of net gain	649	-	-
Amortization of prior service cost	-	31	94
Net periodic benefit cost	$2,587	$1,655	$1,561

The Plan's accumulated benefit obligation was $60,929,000 at March 31, 2004, and $34,925,000 at March 31, 2003.

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:

	2004	2003
Discount rate	6.00%	6.25%
Expected return on plan assets	8.75%	9.00%
Rate of compensation increase	3.50%	4.00%

Plan Assets

	Target Allocation	Percentage of Plan Assets at March 31,	
	2005	2004	2003
Plan Assets:			
Equity Securities*	99%	99%	98%
Debt Securities	-	-	-
Real Estate	-	-	-
Cash	1	1	2
Total	100%	100%	100%

*Includes Seneca common stock in the amounts of $3,972,000 (6.7%) and $3,820,000 (13.3%) at March 31, 2004, and 2003, respectively.

Expected Return on Plan Assets

The expected rate of return on Plan assets is 8.75%. Seneca Foods Corporation 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 plans' target asset allocation.

Investment Policy and Strategy

Seneca Foods Corporation 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. Seneca Foods Corporation 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.

Cash Flows

Expected contributions for fiscal year ending March 31, 2005:	
Expected employer contributions	$ 3,502
Expected employee contributions	-
Estimated future benefit payments reflecting expected future service for the fiscal years ending March 31:	
2005	$ 2,548
2006	2,710
2007	2,947
2008	3,223
2009	3,542
2010-2014	21,809

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 $1,708,000, $605,000, and $846,000, in 2004, 2003, and 2002, respectively.

9. Fair Value of Financial Instruments

The carrying amounts and the estimated fair values of the Company's financial instruments are summarized as follows:

	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Long-term debt, including current portion	$175,200	$175,850	$149,654	$143,639
Notes payable	58,395	58,395	-	-
Capital leases, including current portion	7,306	6,589	6,670	5,034
Class B Common Stock of Moog Inc.	4,465	4,465	2,683	2,683

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.

Class B Common Stock of Moog Inc. - Based on quoted market prices.

10. 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 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.

The new $200.0 million revolving credit facility has a five-year term. During the quarter ended September 27, 2003, the Company refinanced $42.5 million of debt outstanding under the revolving credit facility 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.

As part of this acquisition, the Company assumed seasonal notes payable from the CPF revolving credit facility of $25.4 million which was paid off at the time of acquisition with proceeds from the new $200.0 million revolving credit facility. The Company also assumed $35.9 million of CPF long-term debt and capital lease obligations, of which $26.8 million was paid off at the time of acquisition with proceeds from the new $200.0 million revolving credit facility. The remaining long-term debt principally involves two Industrial Revenue Development Bonds totaling $5.5 million and consisting of a $3 million Pickett, Wisconsin issue due on June 1, 2005 with an interest rate of 7.75% and a $2.5 million Walla Walla, Washington issue due on September 1, 2005 with an interest rate of 8.5%. The balance of the debt acquired, totaling $3.6 million, has interest rates ranging from 1.9% to 9% and is due through 2011.

The Company's consolidated statement of net earnings for the year ended March 31, 2004 includes ten months of the CPF acquired operations. A pro forma income statement as if the operations were acquired at the beginning of the periods presented follows:

	2004	2003
	(unaudited)	
Net Sales	$942,238	$945,217
Cost of Product Sold	867,020	874,797
Selling, General and Administrative	39,495	27,144
Interest Expense (net)	16,985	18,209
Other Expense (net)	1,675	2,409
Total Costs and Expenses	925,175	922,559
Earnings Before Income Taxes	17,063	22,658
Income Taxes	6,248	7,644
Net Earnings	$ 10,815	$ 15,014
Basic Earnings Per Share	$ 0.96	$ 1.35
Diluted Earnings Per Share	$ 0.96	$ 1.35

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 former Chiquita Processed Foods plant and related assets to Lakeside Foods, Inc. on August 6, 2003. The aforementioned sales to Lakeside Foods 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 the year. As of March 31, 2004, the Company has designated four additional plant locations as held for sale and recorded them as assets held for sale on the Consolidated Balance Sheet at their expected fair value.

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

Current assets	$ 137.8
Property, plant and equipment	87.8
Other assets	6.5
Current liabilities	(69.6)
Long-term debt	(27.9)
Other non-current liabilities	(4.3)
Total	$ 130.3

11. Other Income and Expense

Other income in 2004 consisted of a gain on the sale of certain fixed assets of $207,000.

Other expense in 2003 consisted of an impairment loss of $4,719,000.

Other expense in 2002 consisted of the following: 1) an impairment loss of $690,000; and 2) severance expense of $321,000.

12. Sales Information

The Company sold $247,992,000, $252,059,000 and $228,556,000 representing 28%, 39% and 35% of net sales, to one customer in 2004, 2003, and 2002, respectively.

13. 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 2004, 2003, and 2002, the sale of Green Giant vegetables account for 28%, 39%, and 40% 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:	2004	2003	2002
		(In thousands)	
Net Sales:			
GMOI	$247,992	$252,059	$258,412
Canned vegetables	584,010	328,907	333,048
Frozen vegetables	28,900	30,422	25,165
Fruit and chip products	15,347	20,784	19,982
Other	11,507	12,207	14,468
	$887,756	$644,379	$651,075

14. Commitments and Other Contingencies

In the ordinary course of its business, the Company is made a party to certain legal proceedings seeking monetary damages. The Company does not believe that an adverse decision in any of these proceedings would have a material adverse impact on its financial position, results of operations or cash flows.

Various claims totaling approximately $3,211,000 have been 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). The Company has accrued its estimate for the expected settlement of these claims. 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.

The Company was a defendant in a suit entitled State of Wisconsin vs. Seneca Foods Corporation, et. al., commenced July 30, 2001, in the Rock County (Wisconsin) Circuit Court. In the suit, the Wisconsin Department of Justice sought civil penalties against the Company. The State alleged that the Company stored and/or disposed of two different types of materials at a Wisconsin facility in violation of applicable laws. The Company cooperated with Wisconsin authorities to remove the materials and complete remediation activities but contested the State's efforts to recover a monetary penalty. The first subject matter of the suit involved events which occurred approximately 19 years ago, and there was no addition of materials in subsequent years. The second subject matter of the suit involved two events between 1995 and 1999. All material at issue in the action has been removed and properly disposed. During 2003, the Company reached a settlement amount with the State of $242,000 which satisfied both issues.

Report of Independent Registered Public Accounting Firm

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, 2004, 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. 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 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 consolidated financial position of Seneca Foods Corporation and Subsidiaries as of March 31, 2004, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Buffalo, New York
May 26, 2004

Report of Independent Registered Public Accounting Firm

Deloitte & Touche

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 (the "Company") as of March 31, 2003, 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, 2003. 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of Seneca Foods Corporation and subsidiaries as of March 31, 2003, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Rochester, New York
May 21, 2003

Shareholder Information and Quarterly Results

Shareholder Information and Quarterly Results

The Company's common stock is traded on The NASDAQ National Stock Market. The 4.0 million of Class A outstanding shares and 2.8 million Class B outstanding shares are owned by 301 and 296 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:	2004		2003	
Quarter	High	Low	High	Low
First	$18.50	$16.20	$15.39	$12.96
Second	19.30	17.30	13.99	12.02
Third	21.50	19.00	15.00	10.75
Fourth	21.97	18.00	18.75	13.94

Class B:	2004		2003	
Quarter	High	Low	High	Low
First	$18.72	$16.85	$16.00	$14.05
Second	19.55	17.52	14.80	13.80
Third	22.88	19.05	16.42	12.75
Fourth	22.25	18.25	18.38	15.13

As of March 31, 2004, 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, 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, 2004:				
Net sales	$151,296	$248,194	$325,303	$162,963
Gross margin	15,501	19,987	17,568	18,550
Net earnings	3,672	3,910	1,887	3,472
Basic earnings per common share	.35	.35	.17	.31
Diluted earnings per common share	.35	.35	.17	.31
Year ended March 31, 2003:				
Net sales	$123,255	$183,806	$235,430	$101,888
Gross margin	11,766	12,174	13,871	16,489
Net earnings	1,932	2,090	3,147	1,881
Basic earnings per common share	.19	.21	.31	.18
Diluted earnings per common share	.19	.20	.31	.18

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 2004 Annual Meeting of Shareholders will be held on Friday, August 6, 2004, beginning at 1:00 P.M. at the Holiday Inn South, 1630 South Broadway Avenue, Rochester, Minnesota. A formal notice of the meeting together with a proxy statement and proxy form will be mailed to shareholders of record as of June 11, 2004.

Additional Information

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2004, 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 e-mail 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 Chief Executive Officer
Sentry Group

G. Brymer Humphreys
President
Humphreys Farm Inc.

Kraig H. Kayser
President and Chief Executive Officer

Susan W. Stuart
Marketing Consultant

Arthur S. Wolcott
Chairman

Officers

Corporate

Arthur S. Wolcott
Chairman

Kraig H. Kayser
President and Chief Executive Officer

Philip G. Paras
Chief Financial Officer

Jeffrey L. Van Riper
Controller and Secretary

Sarah S. Mortensen
Assistant Secretary

Processed Food Group

Seneca Foods -

Vegetable Operations
Michael H. Haney
President

Manufacturing
Paul L. Palmby
Vice President

Finance
Craig W. Knapp
Vice President

Transportation
Gene W. Schaetten
Vice President

Customer Service
Richard L. Waldorf
Vice President

Business Operations
Cynthia L. Fohrd
Vice President

Sales and Marketing Groups -

Retail
Dean E. Erstad
Senior Vice President

Branded Sales
James E. Blair
Vice President

Private Label Retail
George E. Hopkins, III
Vice President

Food Service
Victoria A. Ninneman
Vice President

Marketing
Bruce S. Wolcott
Vice President

Technical Services Group -

Technical Services & Development
Susan E. Boeding
Vice President

Technical Services
Vincent J. Lammers
Vice President

Corporate Offices

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

Independent Auditors

Ernst & Young LLP
Buffalo, New York

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
East Williamson, New York
Geneva, New York
Leicester, New York
Marion, New York
Newark, New York
Salem, Oregon
Dayton, Washington
Walla Walla, 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

In 2003, Seneca Foods Corporation acquired Chiquita Processed Foods to form the largest canned vegetable processor in the United States. Seneca produces over 100 million cases of quality vegetable products each year.

Many different canners dating back to 1868 have come together in the past decade to form today's Seneca Foods. Each of the originating companies have a rich and proud history which is depicted below in the extensive root system that describes some of the historical highlights of the predecessor companies.

2003

SENECA FOODS CORPORATION

Green Giant Alliance

- 1995: Seneca/ Green Giant Alliance Formed
- 1989: Pillsbury acquired by Grand Metropolitan
- 1979: Merged with The Pillsbury Company
- 1961: Introduced frozen vegetables
- 1960: Merged with Michigan Mushroom Company
- 1950: Changed name of company to Green Giant
- 1949: The largest corn cannery in the world built in Glencoe, MN
- 1946: Merged with Blue Mountain Canneries
- 1944: Purchased the Rock Valley Canning Company
- 1930: Merged with Central Wisconsin Canneries, Inc.
- 1903: Incorporated as Minnesota Valley Canning Co., Le Sueur, MN

Seneca

- 1999: Seneca acquires Agrilink canned vegetable business, Arlington, MN
- 1997: Seneca acquires Comstock Canned Vegetables, Leicester, NY
- 1983: Seneca acquires Cumberland plant from Stokely VanCamp
- 1980: Seneca acquires two kraut canneries in Upstate NY.
- 1979: Seneca acquires Sterling Cooperative
- 1973: Seneca acquires Perfection Foods, Newark, NY
- 1972: Seneca acquires McIvor Kraut Co., Oaks Corners, NY
- 1971: Seneca acquires Fruit Belt Preserving Co., East Williamson, NY
- 1970: Seneca acquires Marion NY Canning Company
- 1949: Seneca founded as Seneca Grape Juice Co. in Dundee, NY

Aunt Nellie's

- 1997: Seneca acquires Aunt Nellie's Farm Kitchen, Clyman, WI
- 1991: Pillsbury acquires Aunt Nellie's Farm Kitchen
- 1988: Aunt Nellie's sold to American Brands, Inc. and six months later, purchased by management in a Leveraged Buyout by original Lau family
- 1987: Under the ownership of Beatrice Companies, Aunt Nellie's spun-off into a holding company to form E-II Holdings Company, Inc.
- 1965: Aunt Nellie's acquired by Beatrice Foods
- 1929: Aunt Nellie's Foods founded by the Lau family in Clyman, WI

Libby's

- 1999: Seneca acquires worldwide rights to sell Libby's canned foods in over 40 countries around the world.
- 1982: Seneca acquires six canned vegetable plants from Nestle with license agreement to sell Libby's brand.
- 1967: Nestle buys Libby, McNeil & Libby
- 1948: Libby's acquires Rochester, MN plant from Reid Murdock
- 1923: Libby's begins packing corn, peas, green beans
- 1905: Libby's packs its first sauerkraut
- 1868: Libby, McNeill & Libby founded as a canned meat company in Chicago, IL

CHIQUITA PROCESSED FOODS

Agripac

- 1999: Chiquita purchases Agripac
- 1971: Eugene Fruit Growers and Blue Lake Packers merge to form Agripac
- 1926: Introduction of Pole Blue Lake Green Beans
- 1921: Blue Lake Packers opens their doors
- 1908: Eugene Fruit Growers is started in Eugene, OR

Stokely

- 1998: Chiquita purchases Stokely USA
- 1985: Oconomowoc is renamed Stokely USA
- 1983: Oconomowoc purchases Stokely-Van Camp
- 1944: Stokely officially becomes Stokely-Van Camp
- 1933: Stokely acquires Van Camp of Indianapolis, IN
- 1928: Stokely acquires Fame Canning Co., Louisville, KY
- 1920: Oconomowoc Canning Co. originates in Oconomowoc, WI
- 1897: Stokely Brothers vegetable cannery built in Eastern Tennessee

Owatonna

- 1997: Chiquita purchases Owatonna Canning
- 1988: Owatonna purchases Princeville Canning
- 1972: Owatonna purchases Bricelyn Canning
- 1965: Owatonna purchases Olivia Canning
- 1959: Owatonna purchases Dodge Center plant
- 1941: Owatonna purchases Goodhue Canning
- 1911: Owatonna Canning Co. grows first crops in Owatonna, MN

American Fine Foods

- 1997: Chiquita purchases American Fine Foods
- 1986: American Fine Foods purchases Rogers Walla Walla
- 1969: Idaho Canning becomes American Fine Foods
- 1903: Idaho Canning Co. founded

Friday Canning

- 1992: Chiquita purchases Friday Canning
- 1980: Friday purchases Fall River Canning
- 1976: Friday purchases Mammoth Spring Canning
- 1967: Friday purchases Country Gardens, Inc.
- 1925: Friday Canning begins operations in New Richmond, WI

Seneca Foods Corporation
3736 South Main Street
Marion, New York 14505

Equal Opportunity Employer