



SENECA[®]

2020
Annual Report

Financial Highlights

Years ended March 31,	2020	2019	Increase (Decrease)
Net sales	\$ 1,335,769,000	\$ 1,199,581,000	11.4%
Earnings (loss) from continuing operations (see note 1)	51,188,000	(36,483,000)	240.3%
Net earnings	52,335,000	5,747,000	810.6%
Stockholders' equity	394,364,000	417,485,000	(5.5)%
Total debt/equity ratio	1.3:1	1.0:1	
Current ratio	3.7:1	5.4:1	
Diluted continuing earnings (loss) per share (see note 1)	\$ 5.46	\$ (3.77)	(244.8)%
Diluted earnings per share (see note 1)	5.58	0.59	845.8%
Total stockholders' equity per equivalent common share (see note 2)	42.77	43.27	(1.2)%

Note 1: During 2008, the Company changed its inventory valuation method from FIFO (first-in, first out) to LIFO (last-in, first out) which increased earnings from continuing operations by \$12.8 million, or \$1.37 per diluted share, in 2020 and decreased earnings from continuing operations by \$30.4 million, or \$3.14 per diluted share, in 2019.

Note 2: Equivalent common shares are either common shares or, for convertible preferred shares, the number of common shares that the preferred shares are convertible into.

Description of Business

Seneca Foods Corporation conducts its business almost entirely in food packaging, which contributed about 99% of the Company's fiscal year 2020 net sales. Canned vegetables represented 74%, fruit products represented 7%, frozen fruit and vegetables represented 10%, prepared foods represented 8% and fruit chip products represented 1% of the total food packaging net sales. Non-food packaging sales, which primarily related to the sale of cans and ends, and outside revenue from the Company's trucking and aircraft operations, represented 1% of the Company's fiscal year 2020 net sales.

Approximately 9% of the Company's packaged foods were sold under its own brands, or licensed trademarks, including Seneca[®], Libby's[®], Aunt Nellie's[®], CherryMan[®], Green Valley[®] and READ[®]. About 64% of the packaged foods were sold under private labels and 18% was sold to institutional food distributors. The remaining 9% was sold under a contract packing agreement with B&G Foods North America, under the Green Giant label.

Marion, New York
July 15, 2020

To Our Shareholders,

The Company recorded net earnings of \$52,335,000 or \$5.58 per diluted share on sales of \$1,335,769,000 versus net earnings of \$5,747,000 or \$0.59 per diluted share on sales of \$1,199,581,000 in fiscal 2019. The company's closure of its Modesto, California fruit operations and the subsequent sale of the plant, property, and equipment during fiscal 2019 are recorded as discontinued operations in our financial statements.

Fiscal 2020 began with higher expectations as we were in the process of completing two long years of plant consolidations and the exit from the canned fruit business. As is always the case in our agriculturally based business, our expectations were tempered by the uncertainty of the upcoming growing season. While it turned out to be a very challenging growing season, the performance of the company did greatly improve as the steps that we took resulted in higher net margins. This improvement was also due in part to an unexpected sales lift in the last month of the fiscal year as consumers pantry loaded ahead of the coronavirus pandemic sweeping across the country.

The Company recorded earnings from continuing operations of \$51,188,000 or \$5.46 per diluted share versus a loss \$(36,483,000) or \$(3.77) per diluted share in the prior year. Our canned vegetable business showed improving margins as a result of higher selling prices that were implemented across our businesses. Our frozen business benefited from improved costs as a result of our divestiture of a frozen repackaging facility in Pennsylvania during the prior year. Our Truitt Brothers business benefited from gains in retail pouches business as well as stronger sales in its pet and diet food segments. Our Seneca Snack business benefited from growth in our branded apple chip sales as a result of new packaging and more frequent promotional activity. The only area that did not show improvement was in the candied fruit business, where we continue to be challenged by heavy inventories and high costs associated with a plant expansion and the integration of an acquisition which is mentioned below.

It is also important to note that a portion of the current year earnings were due to non-operating income and a non-cash credit to earnings from our inventory accounting methodology. The sale of property, plant and equipment associated with three previously closed plants partially offset by restructuring charges associated with those plants added pre-tax non-operating income of \$5,607,000. A non-cash credit derived from our Last In, First Out (LIFO) inventory accounting methodology added another \$17,075,000 to pre-tax profits as strong sales coming on the heels of a smaller than anticipated pack resulted in lower overall inventory levels.

We would also like to call to your attention the impact of the pandemic on our defined benefit pension plan. Our unfunded pension liability and other post-retirement benefits increased by \$60,935,000, net of income taxes which is reflected in our balance sheet as "other comprehensive loss" and reduced our net worth. The timing of our fiscal year end corresponded with the rapid decline in stock valuations and lower interest rates as the market reacted to the expected economic fallout from the pandemic. We decided to contribute \$25,000,000 to the plan just prior to year-end to partially offset these losses and help enhance its long term financial health. The company also closed its defined benefit pension plan to new hires and rehires as of January 1, 2020.

As mentioned previously, the growing season was challenging from the start to finish. A difficult planting season was the result of cold wet weather which delayed by weeks our ability to get our seed planted. It remained cold throughout the early part of the summer further delaying the maturation of the crops. When we finally got enough heat to get in the harvesting period, heavy rains plagued our efforts to harvest the crops and reduced our plant throughput as we dealt with water management issues. In order to get to the end of the season successfully, we needed a warm dry late season. Instead we endured more heavy rains and finally the season was brought to an abrupt end by cold snowy weather in early October across the Midwest. The net effect was that our company was only able to can or freeze about 91% of the crops we had originally planned for.

This was our second consecutive year of challenging growing conditions; therefore we did not have an abundance of inventories in our warehouses coming into the season. As a result, our sales force had to work with our customers to manage limited inventories in order to stay in supply to reach our goal of being a 52 week supplier to our customers.

It was a strategy that was generally working until the last month of our fiscal year, when the Coronavirus pandemic struck and the ensuing stay at home orders motivated consumers to pantry load over the course of a four week period. Inasmuch as our company was designated as critical infrastructure by the Federal Government, our operations worked long hours in shipping record quantities of product to our customers to attempt to keep grocery shelves stocked. Our customers provided many grateful comments in meeting such unprecedented demand; however this will lead to many out of stock situations heading into the new production season. This surge in demand was also true in our other businesses such as candied fruits and Truitt Brothers which ended the year on strong notes.

Prior to the onset of the pandemic, Seneca had already been very busy with a number of major strategic projects. Last July, we acquired the business of Paradise Fruit Company, the leading processor of candied fruit sold for the holiday baking season. We have been in the process of relocating this business from the former Paradise manufacturing facility in Florida into our Michigan cherry facility which included a multi-million dollar expansion of the facility to store fruit and production equipment necessary to support the business.

In November, we completed an agreement with Del Monte Foods to purchase a plant in Wisconsin, and as part of that agreed to process certain quantities of canned vegetables for them on a contractual basis. At the same time, we acquired equipment from two already closed facilities, and have been busy during this off-season moving equipment into our facilities to improve efficiencies or expand our production capacities.

Finally in February, the company completed the contribution of the Sunnyside, Washington plant as well as a \$10 million cash investment in exchange for a 49% stake in CraftAg LLC, a start-up hemp business with its own seed infrastructure. Its purpose is to work in various aspects of the hemp business ranging from seed to finished goods to participate in one of the fastest growing agricultural related segments in America. The rules and regulations regarding growing and processing hemp have been evolving since the 2018 Farm Bill in which hemp was removed as a controlled substance, and permitted to be grown. We are excited to repurpose a closed pear and apple cannery into a new opportunity with CraftAg, LLC led by a proven entrepreneur and a team of industry experts.

Those projects, when combined with the myriad of other capital investments, continuous improvement projects and product work would normally have been viewed as a busy year; however, the pandemic added an entirely new dimension to our business. The challenge of putting up an annual crop of products into canned or frozen finished goods has been further complicated by the need to be able to attempt to keep the virus at bay within our facilities, and allow for production across our facilities.

This challenge for Seneca is magnified by the fact that we produce much of our product in very short harvest windows with lots of seasonal labor. We have been working very closely with governmental authorities in developing guidelines that we should be operating under that deal with the specific challenges of seasonal fruits and vegetables. Keeping our employees safe and our plants operating is a major endeavor which has been and will continue to be consuming most of our time and effort over the coming months. We believe that we are up to the task.

While last year's results were encouraging, it is frankly old news in the current environment where so much has changed in a matter of months. The company has a strong balance sheet, and the financial wherewithal to ride out whatever challenges lie ahead, but it is our people who will make the difference. We are fortunate to have such a team whose experience, strength and capabilities have been clearly demonstrated in the months since the pandemic started. As shareholders, we should all be proud of their efforts in the face of what is an unprecedented period in our 72 year history.

Sincerely,



Chairman



President & Chief Executive Officer

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

OVERVIEW

Our Business

Seneca Foods is one of North America's leading providers of packaged vegetables, with facilities located throughout the United States. Its high quality products are primarily sourced from over 2,000 American farms.

Seneca holds a large share of the retail private label, food service, and export canned vegetable markets, distributing to over 90 countries. Products are also sold under the highly regarded brands of Libby's®, Aunt Nellie's®, Green Valley®, READ®, Cherryman® and Seneca labels, including Seneca snack chips. In addition, Seneca provides vegetable products under a contract packing agreement with B&G Foods North America, under the Green Giant label.

During April 2019, the Company announced production at its fruit processing plant in Sunnyside, Washington would cease at the end of the 2019 production season. The Company continued to store, case and label products at this facility until late in fiscal 2020. In February 2020, the Company invested approximately \$10 million and contributed the Sunnyside facility to acquire a 49% stake in CraftAg, LLC, a newly formed company which is processing hemp at this Sunnyside facility.

On February 16, 2018, the Company announced production at its fruit (primarily peaches) processing plant in Modesto, California would cease prior to the 2018 production season. During the second fiscal quarter of 2019, the Company sold and transferred most of the remaining inventory in the facility and completed most of the labeling and casing required to PCP for the fruit inventory sold to them in the first quarter. The Company continued to ready the building and equipment for sale during the second quarter and into the third quarter. The Modesto operations have met the requirements (approximately a 15% reduction in revenue and a strategic shift away from producing peaches) for discontinued operations and those operations have been presented as such in these financial statements. During October 2018, the building and the land was sold to an unrelated third party for net proceeds of \$63,326,000 and the Company auctioned off the remaining equipment in the third quarter. See note 3 Discontinued Operations for more details.

In November 2019, we completed an agreement with Del Monte Foods to purchase a plant in Wisconsin, and as part of that agreed to process certain quantities of canned vegetables for them on a contractual basis. At the same time, we acquired equipment from two already closed facilities, and have been busy during this off-season moving equipment into our facilities to improve efficiencies or expand our production capacities.

The Company's business strategies are designed to grow the Company's market share and enhance the Company's sales and margins and include: 1) expand the Company's leadership in the packaged vegetable industry; 2) provide low cost, high quality vegetable products to consumers through the elimination of costs from the Company's supply chain and investment in state-of-the-art production and logistical technology; 3) focus on growth opportunities to capitalize on higher expected returns; and 4) pursue strategic acquisitions that leverage the Company's core competencies.

All references to years are fiscal years ended March 31 unless otherwise indicated.

Restructuring

During 2020, the Company recorded a restructuring charge of \$7.0 million related to the closing of plants in the Midwest and Northwest of which \$5.3 million was for accelerated amortization of right-of-use operating lease assets, \$2.4 million was mostly related to equipment moves and \$1.2 million was related to severance. The Company also recorded a credit of \$1.9 million for the reduced lease liability of previously impaired leases.

During 2019, the Company recorded a restructuring charge of \$11.7 million. Of this amount, \$2.3 relates to the partial closure of a plant in the Midwest (\$1.8 million is equipment moves and \$0.5 is severance), \$1.3 million related to the sale of a plant in the Northeast (\$0.5 million is equipment moves and \$0.8 million is severance), and \$0.3 million for the partial sale of a plant in the Northwest (\$0.2 million is severance, \$0.1 million is mostly equipment moves). In addition, the Company recorded a charge for an impairment of long-term assets of \$7.8 million for a Northwest plant that will be ceasing production after this growing season.

These charges are included under Plant Restructuring in the Consolidated Statements of Net Earnings.

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Divestitures, Other Charges and Credits

Other operating income in 2020 includes a gain on the partial sale of a plant in the Midwest of \$3.3 million and a gain on the sale of a plant in the Northwest of \$8.2 million. The Company also recorded a gain on the sale of unused fixed assets of \$1.2 million.

Other operating income in 2019 includes a gain of the sale of a plant in the Northwest of \$4.1 million, a gain on the sale of a plant in the Northeast \$2.0 million and a gain on the partial closure of a plant of \$0.8 million. The Company also recorded a loss on the sale of an Eastern plant of \$0.6 million. The Company also recorded a gain for interest rate swap of \$0.3 million.

Liquidity and Capital Resources

The Company's primary cash requirements are to make payments on the Company's debt, finance seasonal working capital needs and to make capital expenditures. Internally generated funds and amounts available under the revolving credit facility are the Company's primary sources of liquidity, although the Company believes it has the ability to raise additional capital by issuing additional stock, if it desires.

Revolving Credit Facility

The Company completed the closing of a five-year revolving credit facility ("Revolver") on July 5, 2016. Maximum borrowings under the Revolver total \$300.0 million from April through July and \$400.0 million from August through March which represents a \$100 million reduction in the maximum commitment for both periods as elected by the Company in May 2020. The Revolver balance as of March 31, 2020 was \$106.9 million and is included in Long-Term Debt in the accompanying Consolidated Balance Sheet due to the Revolver's July 5, 2021 maturity. In order to maintain availability of funds under the facility, the Company pays a commitment fee on the unused portion of the Revolver. The Revolver is secured by the Company's accounts receivable and inventories and contains a financial covenant and borrowing base requirements. The Company utilizes its Revolver for general corporate purposes, including seasonal working capital needs, to pay debt principal and interest obligations, and to fund capital expenditures and acquisitions. Seasonal working capital needs are affected by the growing cycles of the vegetables the Company packages. The majority of vegetable inventories are produced during the months of June through November and are then sold over the following year. Payment terms for vegetable produce are generally three months but can vary from a few days to seven months. Accordingly, the Company's need to draw on the Revolver may fluctuate significantly throughout the year.

The Company believes that cash flows from operations and availability under its new Revolver will provide adequate funds for the Company's working capital needs, planned capital expenditures and debt service obligations for at least the next 12 months.

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Seasonality

The Company's revenues typically are higher in the second and third fiscal quarters. This is due, in part, because the Company sells, on a bill and hold basis, Green Giant canned and frozen vegetables to B&G Foods at the end of each pack cycle, which typically occurs during these quarters. B&G Foods buys the product from the Company at cost plus an equivalent case tolling fee. See the Critical Accounting Policies section for further details. The Company's non-Green Giant sales also exhibit seasonality with the third fiscal quarter generating the highest sales due to increased retail sales during the holiday season. The table below excludes the Modesto discontinued operations:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands)				
Year ended March 31, 2020:				
Net sales	\$ 264,925	\$ 370,002	\$ 392,971	\$ 307,871
Gross margin	19,174	24,055	52,277	46,382
Earnings from continuing operations	1,103	4,635	24,428	21,022
Revolver outstanding (at quarter end)	136,014	133,338	114,689	106,924
Year ended March 31, 2019:				
Net sales	\$ 244,093	\$ 320,660	\$ 372,238	\$ 262,590
Gross margin	16,788	11,008	(2,096)	13,796
Loss from continuing operations	(2,160)	(5,634)	(20,040)	(8,649)
Revolver outstanding (at quarter end)	207,610	242,947	214,161	155,278

Short-Term Borrowings

The maximum level of short-term borrowings during 2020 was affected by lower inventory due to the smaller seasonal pack totaling \$71.8 million, partially offset the purchase of assets from Del Monte Foods of \$16.9 million and the investment in CraftAg of \$10.0 million. The maximum level of short-term borrowings during 2019 was affected by the disposal of Modesto for \$65.0 million and the lower inventory by \$45.3 million due to the sale of certain facilities in the Northeast, Northwest and Modesto. Details of the sales of facilities are outlined in Note 13 of the Notes to Consolidated Financial Statements.

General terms of the Revolver include payment of interest at LIBOR plus an agreed upon spread.

The following table documents the quantitative data for Short-Term Borrowings during 2020 and 2019:

	Fourth Quarter		Year Ended	
	2020	2019	2020	2019
(In Thousands)				
Reported end of period:				
Revolver outstanding	\$ 106,924	\$ 155,278	\$ 106,924	\$ 155,278
Weighted average interest rate	2.59%	4.00%	2.59%	4.00%
Reported during period:				
Maximum Revolver	\$ 118,790	\$ 218,037	\$ 151,477	\$ 294,062
Average Revolver outstanding	\$ 109,031	\$ 185,127	\$ 122,443	\$ 215,208
Weighted average interest rate	3.22%	4.10%	3.61%	3.73%

Long-Term Debt

On December 9, 2016, the Company entered into a \$100.0 million unsecured term loan with a maturity date of December 9, 2021. The Company incurred financing costs totaling \$0.2 million which have been classified as a discount to the debt. Subsequent to 2020 year end, the Company entered into an Amended and Restated Loan and Guaranty Agreement with Farm Credit East which extended the maturity date to June 1, 2025 and converted the term loan to a fixed interest rate rather than a variable interest rate.. This agreement contains certain covenants, including minimum EBITDA and minimum tangible net worth.

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The Company assumed a tax-exempt bond with the Truitt acquisition on April 3, 2017 for \$10.0 million with a maturity date of October 1, 2032. The Company did not issue any significant long-term debt in 2020, other than the Revolver.

The Company's debt agreements, including the Revolver and term loan, contain covenants that restrict the Company's ability to incur additional indebtedness, pay dividends on the Company's capital stock, make other restricted payments, including investments, sell the Company's assets, incur liens, transfer all or substantially all of the Company's assets and enter into consolidations or mergers. The Company's debt agreements also require the Company to meet certain financial covenants, including a minimum fixed charge coverage ratio, a minimum EBITDA and minimum tangible net worth. The Revolver also contains borrowing base requirements related to accounts receivable and inventories. These financial requirements and ratios generally become more restrictive over time and are subject to allowances for seasonal fluctuations. The most restrictive financial covenant in the debt agreements is the EBITDA within the Farm Credit term loan which for fiscal year end 2020 will be \$45 million and will be greater than \$45 million, thereafter. The Company computes its financial covenants as if the Company were on the FIFO method of inventory accounting. The Company has met for all such financial covenants as of March 31, 2020.

The Company's debt agreements limit the payment of dividends and other distributions. There is an annual total distribution limitation of \$50,000, less aggregate annual dividend payments totaling \$23,000 that the Company presently pays on two outstanding classes of preferred stock.

As of March 31, 2020, scheduled maturities of long-term debt in each of the five succeeding fiscal years and thereafter are presented below. The March 31, 2020 Revolver balance of \$106.9 million is presented as being due in fiscal 2022, based upon the Revolver's July 20, 2021 maturity date (in thousands):

2021	\$ 500
2022	206,865(1)
2023	-
2024	-
2025	-
Thereafter	<u>10,216</u>
Total	<u>\$ 217,581</u>

(1) Subsequent to 2020 year end, the Company's \$100 million term loan with Farm Credit East was extended to June 1, 2025.

Restrictive Covenants

The Company's debt agreements, including the Revolver and term loan, contain covenants that restrict the Company's ability to incur additional indebtedness, pay dividends on the Company's capital stock, make other restricted payments, including investments, sell the Company's assets, incur liens, transfer all or substantially all of the Company's assets and enter into consolidations or mergers. The Company's debt agreements also require the Company to meet certain financial covenants, including a minimum fixed charge coverage ratio, a minimum EBITDA and minimum tangible net worth. The Revolver also contains borrowing base requirements related to accounts receivable and inventories. These financial requirements and ratios generally become more restrictive over time and are subject to allowances for seasonal fluctuations. The most restrictive financial covenant in the debt agreements is the minimum EBITDA within the Farm Credit term loan which for fiscal 2020 year end will be greater than \$45 million. The Company computes its financial covenants as if the Company were on the FIFO method of inventory accounting. The Company has met all such financial covenants as of March 31, 2020.

Capital Expenditures

Capital expenditures in 2020 totaled \$66.4 million and there were four major projects in 2020 as follows: 1) \$10.0 million to buy the plant in Cambria, Wisconsin from Del Monte, 2) \$9.6 million for equipment purchases from Del Monte, 3) \$4.7 million for the Glencoe Freezer project and 4) \$2.6 million for the completion of a warehouse in Hart, Michigan started in 2019. Capital expenditures in 2019 totaled \$33.8 million and there were three major projects in 2019 as follows: 1) \$1.6 million to purchase land in Montgomery, Minnesota, 2) \$4.1 million for a warehouse in Hart, Michigan, and 3) \$2.0 for a production line in Janesville, Wisconsin. In addition, there were lease buyouts, equipment replacements and other improvements in 2020 and 2019.

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Accounts Receivable

In 2020, accounts receivable increased by \$25.7 million or 30.6% versus 2019, due to higher sales volume in the fourth quarter of 2020 compared to 2019. In 2019, accounts receivable increased by \$17.9 million or 27.1% versus 2018 due to higher sales volume in the fourth quarter of 2019 compared to 2018 and \$6.3 million increase in the true-up receivable from B&G Foods.

Inventories

In 2020, inventories decreased by \$90.1 million primarily reflecting the effect of lower finished goods quantities and higher raw material quantities and by the \$16.9 million LIFO reserve decrease. The LIFO reserve balance was \$144.3 million at March 31, 2020 versus \$161.3 million at the prior year end.

The Company believes that the use of the LIFO method better matches current costs with current revenues.

Critical Accounting Policies

During the year ended March 31, 2020, the Company sold \$121.4 million of Green Giant finished goods inventory to B&G Foods North America ("B&G") for cash, on a bill and hold basis, as compared to \$60.0 million for the year ended March 31, 2019. Under the terms of the bill and hold agreement, title to the specified inventory transferred to B&G. Under the revenue recognition standard, this contract qualifies for bill and hold accounting treatment as the Company has concluded that control of the unlabeled products transfers to the customer at the time title transfers and the Company has the right to payment (prior to physical delivery), which results in earlier revenue recognition. Labeling and storage services that are provided after control of the goods has transferred to the customer are accounted for as separate performance obligations for which revenue is deferred until the services are performed.

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 the Company's products to consumers, amounts paid to obtain favorable display positions in retail 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 the Company. As a result, the ultimate cost of a trade promotion program is dependent on the relative success of the events and the actions and level of deductions taken by retailers for amounts they consider due to them. Final determination of the permissible deductions may take extended periods of time.

The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. Property, plant, and equipment are depreciated over their assigned lives. The assigned lives and the projected cash flows used to test impairment are subjective. If actual lives are shorter than anticipated or if future cash flows are less than anticipated, a future impairment charge or a loss on disposal of the assets could be incurred. Impairment losses are evaluated if the estimated undiscounted value of the cash flows is less than the carrying value. If such is the case, a loss is recognized when the carrying value of an asset exceeds its fair value.

Obligations and Commitments

As of March 31, 2020, the Company was obligated to make cash payments in connection with its debt, operating and finance leases, and purchase commitments. The effect of these obligations and commitments on the Company's 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 additional payments as part of any early termination.

In addition, the Company's defined benefit plan has an unfunded pension liability of \$75.7 million which is subject to certain actuarial assumptions. The unfunded status increased by \$58.4 million during 2020 reflecting the actual fair value of plan assets and the projected benefit obligation as of March 31, 2020. This unfunded status increase was recognized via the actual loss on plan assets and the increase in accumulated other comprehensive loss of \$60.9 million after the income tax expense of \$20.3 million. The increase in projected benefit obligation was a function of using an updated mortality table. The discount

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rate reduced from 4.14% in 2019 to 3.69% in 2020. During 2020, the Company converted to the Pri-2012 mortality study with the Blue Collar adjustment, with a generational projection of future mortality improvements from 2006 using Scale MP-2019 for calculating the pension obligation in 2019 and the related pension expense in 2020. The Company utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in determination of the benefit obligation to their underlying projected cash flows.

The Plan was amended to freeze accruals to new hires and rehires effective January 1, 2020. This amendment triggered a curtailment event under ASC 715. The curtailment accelerated statement of earnings recognition of the unrecognized prior service cost resulting in \$0.1 million curtailment charge.

Plan assets decreased from \$233.1 million as of March 31, 2019 to \$202.5 million as of March 31, 2020 due primarily to a loss on plan assets of \$46.3 million from a COVID-19 induced deterioration in market conditions, partially offset by a \$26.0 million contribution by the Company. The Company made this contribution to partially offset the declines in the portfolio.

During 2020, the Company entered into new finance and operating leases of approximately \$10.8 million, based on the if-purchased value, which was primarily for agricultural and packaging equipment.

Purchase commitments represent estimated payments to growers for crops that will be grown during the calendar 2020 season.

Due to uncertainties related to uncertain tax positions, the Company is not able to reasonably estimate the cash settlements required in future periods.

The Company has no off-balance sheet debt or other unrecorded obligations other than operating lease obligations and purchase commitments noted above.

Standby Letters of Credit

The Company has standby letters of credit for certain insurance-related requirements. The majority of the Company's standby letters of credit are automatically renewed annually, unless the issuer gives cancellation notice in advance. On March 31, 2020, the Company had \$13.4 million in outstanding standby letters of credit. These standby letters of credit are supported by the Company's Revolver and reduce borrowings available under the Revolver.

Cash Flows

In 2020, the Company's cash and cash equivalents decreased by \$0.8 million, which is due to the net impact of \$127.3 million provided by operating activities, \$43.2 million used in investing activities, and \$84.9 million used in financing activities.

Operating Activities

Cash provided by operating activities increased to \$127.3 million in 2020 from \$97.1 million of cash provided by operating activities in 2019. The increase is primarily attributable to higher net earnings in 2020 of \$52.3 million as compared to net earnings of \$5.7 million in 2019, which was a \$46.6 million increase, by an increase in deferred income tax of \$14.6 million, partially offset by a lower decrease in inventories in 2020 versus 2019 of \$52.2 million and an increase in accounts and contracts receivable of \$28.0 million. The 2020 earnings reflect a LIFO credit of \$17.1 million resulted in an increase in the tax payment deferral of \$4.3 million. During 2020, the Company made a \$26.0 million contribution to its pension plan compared to a \$2.1 million contribution in the previous year.

The cash requirements of the business fluctuate significantly throughout the year to coincide with the seasonal growing cycles of vegetables. The majority of the inventories are produced during the packing months, from June through November, and are then sold over the following year. Cash flow from operating activities is one of the Company's main sources of liquidity.

Investing Activities

Cash used in investing activities was \$43.2 million for 2020, principally reflecting \$65.7 million of capital expenditures, partially offset by proceeds from the sales of assets of \$22.5 million. Capital expenditures aggregated \$37.7 million in

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2019. There were four major projects in 2020 as follows: 1) \$10.0 million to buy the plant in Cambria, Wisconsin from Del Monte, 2) \$9.6 million for equipment purchases from Del Monte, 3) \$4.7 million for the Glencoe Freezer project and 4) \$2.6 million for the completion of a warehouse in Hart, Michigan started in 2019.

Financing Activities

Cash used in financing activities was \$84.9 million in 2020 representing a net decrease in the debt (primarily the Revolver) of \$48.7 million, a \$10.0 million investment in CraftAg and by the purchase of \$12.7 million of treasury stock during 2020 versus \$8.0 million purchased in 2019.

RESULTS OF OPERATIONS

Classes of similar products/services:	2020	2019
	(In thousands)	
Net Sales:		
Green Giant *	\$ 122,764	\$ 71,161
Canned vegetables	877,391	815,780
Frozen	104,980	113,115
Fruit	97,393	91,941
Prepared foods	105,044	79,593
Snack	11,475	9,684
Other	16,722	18,307
Total	\$1,335,769	\$1,199,581

* Green Giant includes canned and frozen vegetables exclusively for B&G Foods.

Fiscal 2020 versus Fiscal 2019

Net sales for 2020 increased \$136.2 million, from \$1,199.6 million to \$1,335.8 million. The increase primarily reflects, a \$61.6 million increase in canned vegetables sales, a \$51.5 million increase in Green Giant sales, a \$25.5 million increase in prepared food sales, a \$5.5 million increase in Fruit sales, \$1.8 million increase in Snack sales, a \$8.1 million decrease in frozen sales, and a \$1.6 million decrease in other sales. The increase in sales is attributable to increased sales volume of \$56.7 million and higher selling prices/more favorable sales mix of \$79.5 million. The increased selling prices/more favorable sales mix is primarily due to canned vegetables.

Cost of product sold as a percentage of sales decreased from 96.7% in 2019 to 89.4% in 2020 primarily as a result of a \$57.6 million LIFO charge decrease in 2020, due to lower commodity and steel costs, a short pack and higher selling prices in 2020 versus 2019.

Selling, general and administrative expense was at 6.0% of sales in 2019 and 5.8% of sales in 2020.

Other operating income in 2020 includes a gain on the partial sale of a plant in the Midwest of \$3.3 million and a gain on the sale of a plant in the Northwest of \$8.2 million. The Company also recorded a gain on the sale of unused fixed assets of \$1.2 million. Other operating income in 2019 includes a gain on the sale of a plant in the Northwest of \$4.1 million, a gain on the sale of a plant in the Northeast \$2.0 million and a gain on the partial closure of a plant of \$0.8 million. The Company also recorded a loss on the sale of an Eastern plant of \$0.6 million. The Company also recorded a gain for interest rate swap of \$0.3 million.

Plant restructuring costs, which are described in detail in the Restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations, decreased from \$11.7 million in 2019 to \$7.0 million in 2020.

Interest expense, net, decreased from \$15.4 million in 2019 to \$11.8 million in 2020 due mostly to lower average Revolver borrowing during the year in 2020 versus 2019.

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

As a result of the aforementioned factors, continuing pre-tax earnings increased from loss of \$(49.3) million in 2019 to pre-tax earnings of \$65.6 million in 2020. The effective tax rate was 22.0% in 2020 and 25.9% in 2019. The decrease of 3.9 percentage points in the effective tax rate for the year is primarily the result of two items. The changes in tax law from the CARES Act and the retroactive extension of the alternative fuel tax credit resulted in a 2.8 percentage point decrease. The creation of federal tax credits resulted in a 1.8 percentage point decrease. The amounts of federal credits are similar to the prior year but they have an opposite effect on the effective tax rate due to the company having income in 2020 and a loss in 2019.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements – Leases (Topic 842)." This update provides an optional transition method that allows entities to elect to apply the standard retrospectively at the beginning of the period of adoption, versus recasting the prior periods presented. If elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for annual periods beginning after December 15, 2018. We adopted ASU 2016-02 as of April 1, 2019, using the optional transition method provided by ASU 2018-11. The standard resulted in the initial recognition of \$88,333,000 of total operating lease assets and \$91,025,000 of net operating lease liabilities and a net adjustment to retained earnings totaling \$2,019,000 (\$2,692,000 less tax effect of \$673,000) on the Condensed Consolidated Balance Sheet on April 1, 2019. The standard did not materially impact the Condensed Consolidated Statement of Income or Condensed Consolidated Statement of Cash Flows. At adoption, the Company recorded an adjustment to retained earnings of \$2,019,000, which includes an impairment loss that was related to a Northwest plant impairment which was incurred in March 2019 just prior to adoption of this standard. The disclosures required by the recently adopted accounting standard are included in Note 7 of the Notes to the Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. The amendments in this ASU should be applied on a retrospective basis to all periods presented. We are currently evaluating the effect that ASU 2018-14 will have on our condensed consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12 to simplify the accounting for income taxes by removing certain exceptions to the general principles and simplify areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enacted tax laws or rate changes. The new standard will be effective for the Company in the first quarter fiscal year 2022. We are currently evaluating the effect that the new standard will have on the Company's financial position, results of operations and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which was subsequently amended in November 2018 through ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses." ASU No. 2016-13 will require entities to estimate lifetime expected credit losses for trade and other receivables along with other financial instruments which will result in earlier recognition of credit losses. Further, the new credit loss model will affect how entities in all industries estimate their allowance for losses for receivables that are current with respect to their payment terms. In November 2019, the FASB issued ASU No. 2019-10, which, among other things, deferred the application of the new guidance on credit losses for smaller reporting companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. This guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., a modified-retrospective approach). Under the above-mentioned deferral, the Company expects to adopt ASU No. 2016-03, and the related ASU No. 2018-19 amendments, beginning as of April 1, 2023 and is in the process of assessing the impact, if any, that this new guidance is expected to have on the Company's results of operations, financial condition and/or financial statement disclosures.

Consolidated Statements of Net Earnings

Seneca Foods Corporation and Subsidiaries

(In thousands of dollars, except per share amounts)

Years ended March 31,	2020	2019
Net sales	\$1,335,769	\$1,199,581
Costs and expenses:		
Cost of products sold	1,193,881	1,160,085
Selling, general, and administrative expense	76,971	72,549
Other operating income, net	(12,653)	(6,631)
Plant restructuring charge	7,046	11,657
Total costs and expenses	1,265,245	1,237,660
Operating income (loss)	70,524	(38,079)
Loss from equity investment	93	-
Other income	(7,018)	(4,257)
Interest expense, net of interest income of \$25 and \$28, respectively	11,834	15,437
Earnings (Loss) From Continuing Operations Before Income Taxes	65,615	(49,259)
Income Taxes (Benefit) From Continuing Operations	14,427	(12,776)
Earnings (Loss) From Continuing Operations	51,188	(36,483)
Earnings From Discontinued Operations (net of income taxes)	1,147	42,230
Net Earnings	\$ 52,335	\$ 5,747
Basic Earnings (Loss) per Common Share:		
Continuing Operations	\$ 5.50	\$ (3.77)
Discontinued Operations	\$ 0.12	\$ 4.36
Net Basic Earnings per Common Share	\$ 5.62	\$ 0.59
Diluted Earnings (Loss) per Common Share:		
Continuing Operations	\$ 5.46	\$ (3.77)
Discontinued Operations	\$ 0.12	\$ 4.33
Net Diluted Earnings per Common Share	\$ 5.58	\$ 0.59

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Seneca Foods Corporation and Subsidiaries

(In thousands of dollars)

Years ended March 31,	2020	2019
Comprehensive income (loss):		
Net earnings	\$ 52,335	\$ 5,747
Change in pension and postretirement benefits (net of income tax of \$20,312 and \$2,249, respectively)	(60,935)	6,782
Total	\$ (8,600)	\$12,529

See notes to consolidated financial statements.

Consolidated Balance Sheets

Seneca Foods Corporation and Subsidiaries

(In thousands)

March 31,	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 10,702	\$ 11,480
Accounts receivable, less allowance for doubtful accounts of \$1,598 and \$57, respectively	109,802	84,122
Contracts receivable	7,610	-
Assets held for sale-discontinued operations	182	98
Inventories	411,631	501,684
Assets held for sale	-	1,568
Refundable income taxes	4,350	1,221
Other current assets	7,323	3,075
Total Current Assets	551,600	603,248
Deferred income tax asset, net	7,872	2,417
Noncurrent assets held for sale-discontinued operations	1,026	1,143
Other assets	26,042	2,801
Right-of-use assets operating, net	60,663	-
Right-of-use assets financing, net	33,617	-
Property, plant, and equipment:		
Land	24,955	25,832
Buildings and improvements	184,945	190,102
Equipment	408,385	421,639
Total	618,285	637,573
Less accumulated depreciation and amortization	389,796	398,300
Net property, plant, and equipment	228,489	239,273
Total Assets	\$909,309	\$848,882
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 71,194	\$ 61,024
Deferred revenue	7,758	4,098
Accrued vacation	11,876	11,678
Accrued payroll	11,864	5,105
Other accrued expenses	17,808	19,363
Current liabilities held for sale-discontinued operations	880	4,285
Current liabilities held for sale	-	61
Current portion of long-term debt and lease obligations	28,274	6,763
Total Current Liabilities	149,654	112,377
Long-term debt, less current portion	217,081	265,900
Operating lease obligations, less current portion	42,760	-
Finance lease obligations, less current portion	24,366	-
Pension liabilities	75,742	17,349
Other liabilities	5,342	4,180
Noncurrent liabilities held for sale	-	305
Capital lease obligations, less current portion	-	31,286
Total Liabilities	514,945	431,397
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock	681	707
Common stock	3,041	3,039
Additional paid-in capital	98,384	98,260
Treasury stock, at cost	(88,319)	(75,740)
Accumulated other comprehensive loss	(79,220)	(18,285)
Retained earnings	459,797	409,504
Total Stockholders' Equity	394,364	417,485
Total Liabilities and Stockholders' Equity	\$909,309	\$848,882

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Seneca Foods Corporation and Subsidiaries

(In thousands)

Years ended March 31,	2020	2019
Cash flows from operating activities:		
Net earnings	\$ 52,335	\$ 5,747
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	30,933	31,235
Deferred income tax expense	15,529	909
Gain on the sale of assets	(13,086)	(63,394)
Impairment and Restructuring provision	5,626	16,080
Loss from equity investment	93	-
401(k) match stock contribution	94	1,773
Changes in operating assets and liabilities (net of acquisitions):		
Accounts receivable	(33,290)	(5,326)
Inventories	90,053	142,271
Other current assets	(4,332)	(1,029)
Accounts payable, accrued expenses, and other liabilities	(13,509)	(31,071)
Income taxes	(3,129)	(79)
Net cash provided by operating activities	127,317	97,116
Cash flows from investing activities:		
Additions to property, plant, and equipment	(65,686)	(37,728)
Proceeds from life insurance	-	343
Proceeds from the sale of assets	22,529	104,387
Net cash (used in) provided by investing activities	(43,157)	67,002
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	494,098	504,381
Payments of long-term debt	(542,778)	(664,108)
Payments on financing leases	(6,437)	-
Change in other assets	(17,125)	(33)
Purchase of treasury stock	(12,673)	(7,957)
Preferred stock dividends paid	(23)	(23)
Net cash used in financing activities	(84,938)	(167,740)
Net decrease in cash and cash equivalents	(778)	(3,622)
Cash and cash equivalents, beginning of year	11,480	15,102
Cash and cash equivalents, end of year	\$ 10,702	\$ 11,480
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 10,836	\$ 15,424
Income taxes paid	573	173
Noncash transactions:		
Investment in CraftAg, LLC via contribution of plant	\$ 7,975	\$ -
Property, plant and equipment issued under finance and operating leases	10,843	4,199

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Seneca Foods Corporation and Subsidiaries

(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings
Balance March 31, 2018	\$707	\$ 3,038	\$98,161	\$ (69,556)	\$ (25,067)	\$ 403,780
Net earnings	-	-	-	-	-	5,747
Cash dividends paid on preferred stock	-	-	-	-	-	(23)
Equity incentive program	-	-	100	-	-	-
Contribution of 401(k) match	-	-	-	1,773	-	-
Purchase of treasury stock	-	-	-	(7,957)	-	-
Preferred stock conversion	-	1	(1)	-	-	-
Change in pension and postretirement benefits adjustment (net of tax \$2,249)	-	-	-	-	6,782	-
Balance March 31, 2019	707	3,039	98,260	(75,740)	(18,285)	409,504
Net earnings	-	-	-	-	-	52,335
Cash dividends paid on preferred stock	-	-	-	-	-	(23)
Equity incentive program	-	-	100	-	-	-
Contribution of 401(k) match	-	-	-	94	-	-
Purchase of treasury stock	-	-	-	(12,673)	-	-
Preferred stock conversion	(26)	2	24	-	-	-
Operating lease impairment adjustment upon the adoption of ASU 2016-02 "Leases" (net of tax \$673)	-	-	-	-	-	(2,019)
Change in pension and postretirement benefits adjustment (net of tax \$20,312)	-	-	-	-	(60,935)	-
Balance March 31, 2020	\$681	\$ 3,041	\$98,384	\$ (88,319)	\$ (79,220)	\$ 459,797

	Preferred Stock				Common Stock	
	6% Cumulative Par Value \$0.25 Callable at Par Voting	10% Cumulative Par Value \$0.25 Convertible Voting	Participating Convertible Par Value \$0.25	2003 Series Participating Convertible Par Value \$0.25	Class A Common Stock Par Value \$0.25	Class B Common Stock Par Value \$0.25
Shares authorized and designated: March 31, 2020	200,000	1,400,000	35,355	500	20,000,000	10,000,000
Shares outstanding: March 31, 2019	200,000	807,240	37,529	500	7,667,913	1,874,861
March 31, 2020	200,000	807,240	35,355	500	7,383,993	1,733,902
Stock amount	\$50	\$202	\$421	\$8	\$2,539	\$502

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 (the “Parent Company”) and subsidiaries (the “Company”) conducts its business almost entirely in food packaging, operating 27 plants and 30 warehouses in nine states. The Company markets private label and branded packaged 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 — Revenue recognition is completed primarily at a point in time basis when product control is transferred to the customer. In general, control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time. See Note 4, Revenue Recognition, for further discussion of the policy.

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 sales, include amounts paid to retailers for shelf space, to obtain favorable display positions and to offer temporary price reductions for the sale of our products to consumers. Accruals for trade promotions are recorded primarily at the time of sale 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 the Company. 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. 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 the Company’s total sales. Green Giant sales to B & G Foods represented 9%, and 6% of net sales in each of 2020 and 2019, respectively. The top ten customers, including B & G Foods, represented approximately 49%, and 47% of net sales for 2020 and 2019, 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 Equivalents — The Company considers all highly liquid instruments purchased with an original maturity of three months or less as cash equivalents.

Fair Value of Financial Instruments — The carrying values of cash and cash equivalents (Level 1), accounts receivable, short-term debt (Level 2) and accounts payable approximate fair value because of the immediate or short-term maturity of these financial instruments. See Note 11, Fair Value of Financial Instruments, for a discussion of the fair value of long-term debt.

The three-tier value hierarchy is utilized to prioritize the inputs used in measuring fair value. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobserved inputs (Level 3). The three levels are defined as follows:

- Level 1- Quoted prices for identical instruments in active markets.
- Level 2- Quoted prices for similar instruments; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable.
- Level 3- Model-derived valuations in which one or more inputs or value-drivers are both significant to the fair value measurement and unobservable.

Notes to Consolidated Financial Statements

Deferred Financing Costs — Deferred financing costs incurred in obtaining debt are amortized on a straight-line basis over the term of the debt, which is not materially different than using the effective interest rate method. As of March 31, 2020 there were \$0.3 million of unamortized financing cost included in other current assets and \$0.1 million of unamortized financing costs included as a contra to long-term debt and current portion of long-term debt on the Consolidated Balance Sheets.

Inventories — Substantially all inventories are stated at the lower of cost; determined under the last-in, first-out (“LIFO”) 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 basis of assets and liabilities and tax credit carryforwards. The Company uses the flow-through method to account for its investment tax credits.

The Company evaluates the likelihood of realization of its net deferred income tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the Company’s forecast of future taxable income, the projected reversal of temporary differences and available tax planning strategies that could be implemented to realize the net deferred income tax assets.

Current rules on the accounting for uncertainty on income taxes prescribe a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Those rules also provide guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense.

Assets Held for Sale—The Company classifies property and equipment as held for sale when certain criteria are met. At such time, the properties, including significant assets that are expected to be transferred as part of a sale transaction, are presented separately on the consolidated balance sheet at the lower of carrying value or estimated fair value less costs to sell and depreciation is no longer recognized. Assets classified as held for sale included buildings, land and equipment.

Discontinued Operations — Discontinued operations comprise those activities that have been disposed of during the period or that have been classified as held for sale at the end of the period, and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes. In fiscal 2019, the Company sold its Modesto fruit operations and began reporting the results of operations, cash flows and the balance sheet amounts pertaining to this as a component of discontinued operations in the consolidated financial statements.

Unless otherwise indicated, information in the notes to the consolidated financial statements relates to continuing operations.

Advertising Costs — Advertising costs are expensed as incurred. Advertising costs charged to continuing operations were \$2.2 million and \$2.1 million in 2020 and 2019, respectively.

Accounts Receivable and Doubtful Accounts — Accounts receivable is stated at invoice value, which is net of any off invoice promotions. 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.

Earnings per Common Share — The Company has three series 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 is calculated using the “two-class” method by dividing the earnings attributable to common stockholders by the weighted average of common shares outstanding during the period. Restricted stock is included in all earnings per share calculations.

Diluted earnings per share is calculated by dividing earnings attributable 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,	2020	2019
Continuing Operations	(In thousands, except per share amounts)	
<u>Basic</u>		
Continuing operations earnings (loss)	\$51,188	\$(36,483)
Deduct preferred stock dividends	23	23
Undistributed earnings (loss)	51,165	(36,506)
Earnings (loss) attributable to participating preferred shareholders	206	(143)
Earnings (loss) attributable to common shareholders	\$50,959	\$(36,363)
Weighted average common shares outstanding	9,264	9,652
Basic earnings (loss) from continuing operations per common share	\$ 5.50	\$ (3.77)
<u>Diluted</u>		
Earnings (loss) attributable to common shareholders	\$50,959	\$(36,363)
Add dividends on convertible preferred stock	20	-
Earnings (loss) attributable to common stock on a diluted basis	\$50,979	\$(36,363)
Weighted average common shares outstanding-basic	9,264	9,652
Additional shares to be issued related to the equity compensation plan	2	-
Additional shares to be issued under full conversion of preferred stock	67	-
Total shares for diluted	9,333	9,652
Diluted earnings (loss) from continuing operations per share	\$ 5.46	\$ (3.77)
Years ended March 31,	2020	2019
Discontinued Operations	(In thousands, except per share amounts)	
<u>Basic</u>		
Discontinued operations earnings	\$ 1,147	\$42,230
Deduct preferred stock dividends	23	23
Undistributed earnings	1,124	42,207
Earnings attributable to participating preferred shareholders	5	166
Earnings attributable to common shareholders	\$ 1,119	\$42,041
Weighted average common shares outstanding	9,264	9,652
Basic earnings from discontinued operations per common share	\$ 0.12	\$ 4.36
<u>Diluted</u>		
Earnings attributable to common shareholders	\$ 1,119	\$42,041
Add dividends on convertible preferred stock	20	20
Earnings attributable to common stock on a diluted basis	\$ 1,139	\$42,061
Weighted average common shares outstanding-basic	9,264	9,652
Additional shares to be issued related to the equity compensation plan	2	3
Additional shares to be issued under full conversion of preferred stock	67	67
Total shares for diluted	9,333	9,722
Diluted earnings from discontinued operations per share	\$ 0.12	\$ 4.33

Note: For fiscal 2019 addbacks for equity compensation and additional shares that were anti-dilutive were excluded from diluted earnings per share from continuing operations calculations.

Depreciation and Valuation — Property, plant, and equipment are stated at cost. Interest incurred during the construction of major projects is capitalized. For financial reporting, the Company provides for depreciation on the straight-line method at rates based upon the estimated useful lives of the various assets. Depreciation was \$26.1 million and \$29.5 million, in 2020, and 2019, respectively. The estimated useful lives are as follows: buildings and improvements — 30 years; machinery and equipment — 10-15 years; computer software — 3-5 years; vehicles — 3-7 years; and land improvements — 10-20 years.

The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. Impairment losses are evaluated if the estimated undiscounted cash flows from using the assets are less than carrying value. A loss is recognized when the carrying value of an asset exceeds its fair value. There were no significant impairment losses in 2020. There was a \$7.8 million impairment loss recorded in 2019 related to a Northwest plant.

Notes to Consolidated Financial Statements

Use of Estimates in the Preparation of Financial Statements — The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") 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 estimates.

Recently Issued Accounting Standards In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. In July 2018, the FASB issued ASU No. 2018-11, Targeted Improvements – Leases (Topic 842)." This update provides an optional transition method that allows entities to elect to apply the standard retrospectively at the beginning of the period of adoption, versus recasting the prior periods presented. If elected, an entity would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for annual periods beginning after December 15, 2018. We adopted ASU 2016-02 as of April 1, 2019, using the optional transition method provided by ASU 2018-11. The standard resulted in the initial recognition of \$88,333,000 of total operating lease assets and \$91,025,000 of net operating lease liabilities and a net adjustment to retained earnings totaling \$2,019,000 (\$2,692,000 less tax effect of \$673,000) on the Condensed Consolidated Balance Sheet on April 1, 2019. The standard did not materially impact the Condensed Consolidated Statement of Income or Condensed Consolidated Statement of Cash Flows. At adoption, the Company recorded an adjustment to retained earnings of \$2,019,000, which includes an impairment loss that was related to a Northwest plant impairment which was incurred in March 2019 just prior to adoption of this standard. The disclosures required by the recently adopted accounting standard are included in Note 7 of the Notes to the Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other postretirement plans. ASU 2018-14 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. The amendments in this ASU should be applied on a retrospective basis to all periods presented. We are currently evaluating the effect that ASU 2018-14 will have on our condensed consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12 to simplify the accounting for income taxes by removing certain exceptions to the general principles and simplify areas such as franchise taxes, step-up in tax basis goodwill, separate entity financial statements and interim recognition of enacted tax laws or rate changes. The new standard will be effective for the Company in the first quarter fiscal year 2022. We are currently evaluating the effect that the new standard will have on the Company's financial position, results of operations and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which was subsequently amended in November 2018 through ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments - Credit Losses." ASU No. 2016-13 will require entities to estimate lifetime expected credit losses for trade and other receivables along with other financial instruments which will result in earlier recognition of credit losses. Further, the new credit loss model will affect how entities in all industries estimate their allowance for losses for receivables that are current with respect to their payment terms. In November 2019, the FASB issued ASU No. 2019-10, which, among other things, deferred the application of the new guidance on credit losses for smaller reporting companies to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. This guidance will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., a modified-retrospective approach). Under the above-mentioned deferral, the Company expects to adopt ASU No. 2016-03, and the related ASU No. 2018-19 amendments, beginning as of April 1, 2023 and is in the process of assessing the impact, if any, that this new guidance is expected to have on the Company's results of operations, financial condition and/or financial statement disclosures.

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

Notes to Consolidated Financial Statements

2. Asset Held For Sale

As of March 31, 2019, the Company had certain operating units in the Midwest that met the criteria to be classified as held for sale, which requires the Company to present the related assets and liabilities as separate line items in our March 31, 2019 Condensed Consolidated Balance Sheet. The Company is required to record the assets held for sale at the lower of carrying value or fair value less costs to sell. The following table presents information related to the major classes of assets and liabilities that were held for sale in our March 31, 2019 Condensed Consolidated Balance Sheet (in thousands):

Property, Plant and Equipment (net)	<u>\$ 1,568</u>
Current Assets Held For Sale	<u>\$ 1,568</u>
Capital Lease Obligations Current Portion	<u>\$ 61</u>
Current Liabilities Held For Sale	<u>\$ 61</u>
Capital Lease Obligations	<u>\$ 305</u>
Noncurrent Liabilities Held For Sale	<u>\$ 305</u>

3. Discontinued Operations

On July 13, 2018, the Company executed a nonbinding letter of intent with a perspective buyer of the Modesto facility. On October 9, 2018, the Company closed on the sale of the facility to this outside buyer with net proceeds of \$63,326,000. Based on its magnitude of revenue to the Company (approximately 15%) and because the Company was exiting the production of peaches, this sale represented a significant strategic shift that has a material effect on the Company's operations and financial results. Accordingly, the Company has applied discontinued operations treatment for this sale as required by Accounting Standards Codification 210-05—Discontinued Operations. This business we are exiting is part of the Fruit and Vegetable segment.

The following table presents information related to the major classes of assets and liabilities of Modesto that are classified as Held For Sale-Discontinued Operations in the Company's Consolidated Condensed balance sheets (in thousands):

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
Other Current Assets	<u>\$ 182</u>	<u>\$ 98</u>
Current Assets Held For Sale-Discontinued Operations	<u>\$ 182</u>	<u>\$ 98</u>
Other Assets	<u>\$1,026</u>	<u>\$1,143</u>
Noncurrent Assets Held For Sale-Discontinued Operations	<u>\$1,026</u>	<u>\$1,143</u>
Accounts Payable and Accrued Expenses	<u>\$ 880</u>	<u>\$4,285</u>
Current Liabilities Held For Sale-Discontinued Operations	<u>\$ 880</u>	<u>\$4,285</u>

Notes to Consolidated Financial Statements

The operating results of the discontinued operations that are reflected in the Unaudited Condensed Consolidated Statements of Net Earnings (Loss) from discontinued operations are as follows:

	Twelve Months Ended	
	March 31, 2020	March 31, 2019
Net Sales	\$ -	\$111,693
Costs and Expenses:		
Cost of Product Sold	57	129,872
Selling, General and Administrative	-	1,135
Plant Restructuring Charge (a)	(1,150)	4,515
Interest Expense (b)	-	1,077
Total cost and expenses	<u>(1,093)</u>	<u>136,599</u>
Earnings (Loss) From Discontinued Operations Before Income Taxes	1,093	(24,906)
Gain on the Sale of Assets Before Income Taxes (c) (d) (e)	(430)	(80,632)
Income Tax Expense	376	13,496
Net Earnings From Discontinued Operations, Net of Tax	<u>\$ 1,147</u>	<u>\$ 42,230</u>

(a) Includes \$902,000 credit for pension termination in fiscal 2020.

Includes \$3,746,000 of Modesto severance in fiscal 2019.

(b) Includes interest on debt directly related to Modesto including the building mortgage and equipment leases and an allocation of the Company's line of credit facility.

(c) Includes a \$24,211,000 gain as a result of LIFO layer liquidations from the disposal of the inventory for fiscal 2019.

(d) Includes \$51,446,000 gain on the sale of Modesto plant and equipment in fiscal 2019.

(e) Includes a \$4,975,000 gain on the sale of bins in fiscal 2019.

Supplemental Information on Discontinued Operations:

Capital Expenditures	\$ -	\$ 3,937
Depreciation	-	1,302

4. Revenue Recognition

The Company adopted Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) as of April 1, 2018, utilizing the full retrospective method of transition, which requires a restatement of each prior reporting period presented. The Company implemented new policies, processes and systems to enable both the preparation of financial information and internal controls over financial reporting in connection with its adoption of ASC 606. The updated accounting policy for revenue recognition follows:

Nature of products

We manufacture and sell the following:

- private label products to retailers, such as supermarkets, mass merchandisers, and specialty retailers, for resale under the retailers’ own or controlled labels;
- private label and branded products to the foodservice industry, including foodservice distributors and national restaurant operators;
- branded products under our own proprietary brands, primarily on a national basis to retailers;
- branded products under co-pack agreements to other major branded companies for their distribution; and
- products to our industrial customer base for repackaging in portion control packages and for use as ingredients by other food manufacturers.

Notes to Consolidated Financial Statements

Disaggregation of revenue

In the following table, segment revenue is disaggregated by product category groups (in millions):

	Year Ended	
	March 31, 2020	March 31, 2019
Canned Vegetables	\$ 877.4	\$ 815.8
B&G*	122.8	71.2
Frozen	105.0	113.1
Fruit Products	97.4	91.9
Chip Products	11.5	9.7
Prepared Foods	105.0	79.6
Other	16.7	18.3
	<u>\$ 1,335.8</u>	<u>\$ 1,199.6</u>

*B&G includes both canned and frozen vegetable sales exclusively for B&G under the Green Giant label.

When Performance Obligations Are Satisfied

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's primary performance obligation is the production of food products and secondarily case and labeling services and storage services for certain bill and hold sales.

Revenue recognition is completed primarily at a point in time basis when product control is transferred to the customer. In general, control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time.

Customer contracts generally do not include more than one performance obligation. When a contract does contain more than one performance obligation, we allocate the contract's transaction price to each performance obligation based on its relative standalone selling price. The standalone selling price for each distinct good is generally determined by directly observable data.

The performance obligations in our contracts are generally satisfied within one year. As such, we have not disclosed the transaction price allocated to remaining performance obligations for labeling and storage as of March 31, 2020 and 2019 which is included in deferred revenue.

Significant Payment Terms

Our customer contracts identify the product, quantity, price, payment and final delivery terms. Payment terms usually include early pay discounts. We grant payment terms consistent with industry standards. Although some payment terms may be more extended, no terms beyond one year are granted at contract inception. As a result, we do not adjust the promised amount of consideration for the effects of a significant financing component because the period between our transfer of a promised good or service to a customer and the customer's payment for that good or service will be generally 30 days or less.

Shipping

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in the cost of sales; this includes shipping and handling costs after control over a product has transferred to a customer.

Notes to Consolidated Financial Statements

Variable Consideration

In addition to fixed contract consideration, some contracts include some form of variable consideration. 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 sales, include amounts paid to retailers for shelf space, to obtain favorable display positions and to offer temporary price reductions for the sale of our products to consumers. Accruals for trade promotions are recorded primarily at the time of sale 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 the Company. 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. Final determination of the permissible deductions may take extended periods of time.

Contract balances

Contract asset balance as of March 31, 2020 is \$7.6 million and none as of March 31, 2019. Contract liability balance is immaterial. The Company does not have significant deferred revenue or unbilled receivable balances because of transactions with customers. The Company does have deferred revenue for prepaid case and labeling and storage services which have been collected from B&G for Green Giant bill and hold sales.

Contract Costs

We have identified certain incremental costs to obtain a contract, primarily sales commissions, requiring capitalization under the new standard. The Company continues to expense these costs as incurred because the amortization period for the costs would have been one year or less. The Company does not incur significant fulfillment costs requiring capitalization.

5. Revolving Credit-Facility

The Company completed the closing of a five-year revolving credit facility ("Revolver") on July 5, 2016. Maximum borrowings under the Revolver total \$300.0 million from April through July and \$400.0 million from August through March which represents a \$100 million reduction in the maximum commitment for both periods as elected by the Company in May 2020. The Revolver balance as of March 31, 2020 was \$106.9 million and is included in Long-Term Debt in the accompanying Consolidated Balance Sheet due to the Revolver's July 5, 2021 maturity. In order to maintain availability of funds under the facility, the Company pays a commitment fee on the unused portion of the Revolver. The Revolver is secured by the Company's accounts receivable and inventories and contains a financial covenant and borrowing base requirements. The Company utilizes its Revolver for general corporate purposes, including seasonal working capital needs, to pay debt principal and interest obligations, and to fund capital expenditures and acquisitions. Seasonal working capital needs are affected by the growing cycles of the vegetables the Company packages. The majority of vegetable inventories are produced during the months of June through November and are then sold over the following year. Payment terms for vegetable produce are generally three months but can vary from a few days to seven months. Accordingly, the Company's need to draw on the Revolver may fluctuate significantly throughout the year.

Notes to Consolidated Financial Statements

6. Long-Term Debt

	2020	2019
	(In thousands)	
Revolving credit facility, 2.59% and 4.00%, due through 2022	\$106,924	\$155,278
Farm Credit term loan, 4.54% and 4.77%, due 2022	99,941	99,906
Bluegrass tax exempt bonds, 3.01% and 3.19%, due 2033	10,000	10,000
Secured promissory note, 6.35%, due through 2020	-	262
Economic development note, 2.00%, due through 2021	500	583
Other	216	216
Total	<u>217,581</u>	<u>266,245</u>
Less current portion	500	345
Long-term debt	<u>\$217,081</u>	<u>\$265,900</u>

See Note 5, Revolving Credit Facility, for discussion of the Revolver.

The Company's debt agreements, including the Revolver and term loan, contain covenants that restrict the Company's ability to incur additional indebtedness, pay dividends on the Company's capital stock, make other restricted payments, including investments, sell the Company's assets, incur liens, transfer all or substantially all of the Company's assets and enter into consolidations or mergers. The Company's debt agreements also require the Company to meet certain financial covenants, including a minimum fixed charge coverage ratio, a minimum EBITDA and minimum tangible net worth. The Revolver also contains borrowing base requirements related to accounts receivable and inventories. These financial requirements and ratios generally become more restrictive over time and are subject to allowances for seasonal fluctuations. The most restrictive financial covenant in the debt agreements is the EBITDA within the Farm Credit term loan which for fiscal year end 2020 will be \$45 million and will be greater than \$45 million, thereafter. The Company computes its financial covenants as if the Company were on the FIFO method of inventory accounting. The Company has met for all such financial covenants as of March 31, 2020.

The Company's debt agreements limit the payment of dividends and other distributions. There is an annual total distribution limitation of \$50,000, less aggregate annual dividend payments totaling \$23,000 that the Company presently pays on two outstanding classes of preferred stock.

On December 9, 2016, the Company entered into a \$100.0 million unsecured term loan payable to Farm Credit East, ACA, with a variable interest rate. The maturity date for this term loan is of December 9, 2021. The Company incurred financing costs totaling \$0.2 million which have been classified as a discount to the debt. See Note 18, Subsequent Event, for additional information relating to this term loan.

The Company assumed a tax-exempt bond with the Truitt acquisition on April 3, 2017. At March 31, 2020 the total outstanding of this bond is \$10.0 million. The bond has a variable interest rate with a maturity date of October 1, 2032.

The carrying value of assets pledged for secured debt, including the Revolver, is \$567.3 million.

Debt repayment requirements for the next five fiscal years are (in thousands):

Years ending March 31:	
2021	\$ 500
2022	206,865
2023	-
2024	-
2025	-
Thereafter	<u>10,216</u>
Total	<u>\$217,581</u>

Notes to Consolidated Financial Statements

7. Leases

The Company determines if an arrangement is a lease at inception of the agreement. Operating leases are included in right-of-use operating assets, and current and noncurrent operating lease obligations in the Company's Condensed Consolidated Balance Sheets. Lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. If the lease does not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The right-of-use operating lease assets also include in its calculation any prepaid lease payments made and excludes any lease incentives received from the arrangement. The Company's lease terms may include options to extend or terminate the lease, and the impact of these options are included in the lease liability and lease asset calculations when the exercise of the option is at the Company's sole discretion and it is reasonably certain that the Company will exercise that option. The Company will not separate lease and nonlease components for its leases when it is impractical to separate the two, such as leases with variable payment arrangements. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

The Company has operating leases for land, machinery and equipment. The Company also has finance leases for machinery and equipment. The commencement date used for the calculation of the lease obligation is the latter of the commencement date of the new standard (April 1, 2019) or the lease start date. Certain of the leases have options to extend the life of the lease, which are included in the liability calculation when the option is at the sole discretion of the Company and it is reasonably certain that the Company will exercise the option. In addition, the Company has certain leases that have variable payments based solely on output or usage of the leased asset. These variable operating lease assets are excluded from the Company's balance sheet presentation and expensed as incurred. Leases with an initial term of 12 months or less are not material. The Company currently has finance leases which were accounted for as capital leases under the previous standard and were unchanged as a result of this standard implementation.

Upon adoption of ASU 2016-02, the Company determined its right-of-use assets related to the operating leases for its plant equipment in Sunnyside, Washington were partially impaired and therefore were reduced with a corresponding charge to retained earnings of \$2,019,000 (which is net of tax). The estimated lives of these assets will be shortened due to the planned closure of the facility after the year's pack.

Notes to Consolidated Financial Statements

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense were as follows (In thousands):

	Year Ended March 31, 2020
<u>Lease cost:</u>	
Amortization of right of use asset	\$ 4,335
Interest on lease liabilities	1,353
Finance lease cost	5,688
Operating lease cost	30,190
Total lease cost	<u>\$35,878</u>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	\$ 1,353
Operating cash flows from operating leases	29,845
Financing cash flows from finance leases	6,437
Total	<u>\$37,635</u>
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 4,424
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 6,419
Weighted-average lease term (years):	
Financing leases	5.3
Operating leases	3.8
Weighted-average discount rate (percentage):	
Financing leases	4.1
Operating leases	4.5

Undiscounted future lease payments under non-cancelable operating leases and financial leases, along with a reconciliation of undiscounted cash flows to operating and financing lease liabilities, respectively, as of March 31, 2020 (in thousands) were as follows:

Years ending March 31:	Operating	Financing
2021	\$ 23,896	\$ 7,313
2022	18,820	7,313
2023	13,022	7,313
2024	6,510	5,786
2025	3,023	2,395
2026-2031	4,597	3,995
Total minimum payment required	<u>\$ 69,868</u>	<u>\$34,115</u>
Less interest	5,559	3,524
Present value of minimum lease payments	64,309	30,591
Amount due within one year	<u>21,549</u>	<u>6,225</u>
Long-term lease obligation	<u>\$ 42,760</u>	<u>\$24,366</u>

Notes to Consolidated Financial Statements

As the Company has not restated prior year information for its adoption of ASC Topic 842, the following presents its future minimum lease payments for operating and capital leases under ASC Topic 840 on March 31, 2019:

Years ending March 31:	Operating	Capital
2020	\$ 28,689	\$ 7,827
2021	24,938	7,827
2022	17,526	7,827
2023	12,062	7,827
2024	5,950	6,102
2025-2031	6,927	5,267
Total minimum payment required	\$ 96,092	\$42,677
Less interest		4,973
Present value of minimum lease payments		37,704
Amount due within one year		6,418
Long-term capital lease obligation		\$31,286

8. Income Taxes

The Company files a consolidated federal and various state income tax returns. The provision for income taxes is as follows:

	2020	2019
	(In thousands)	
Current:		
Federal	\$ (1,912)	\$ (283)
State	1,187	93
Total	<u>(725)</u>	<u>(190)</u>
Deferred:		
Federal	\$14,251	\$ 1,220
State	1,278	(310)
Total	<u>15,529</u>	<u>910</u>
Total income taxes (1)	\$14,804	\$ 720

(1) Income tax expense (benefit) included in the financial statements is comprised of \$14.4 million and \$(12.8) million from continuing operations and \$0.4 million and \$13.5 million from discontinued operations in 2020 and 2019, respectively.

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

	2020	2019
Computed (expected tax rate)	21.0%	21.0%
State income taxes (net of federal tax benefit)	3.6	3.2
State tax credits	(0.8)	0.7
Federal credits	(0.8)	1.0
Addition to uncertain tax positions	0.3	1.0
Other permanent differences not deductible	0.2	(0.2)
Change in valuation allowance	0.7	(0.2)
Tax law change	(2.8)	-
Other	0.6	(0.6)
Effective income tax rate	22.0%	25.9%

Notes to Consolidated Financial Statements

The effective tax rate was 22.0% in 2020 and 25.9% in 2019. The decrease of 3.9 percentage points in the effective tax rate for the year is primarily the result of two items. The changes in tax law from the CARES Act and the retroactive extension of the alternative fuel tax credit resulted in a 2.8 percentage point decrease. The creation of federal tax credits resulted in a 1.8 percentage point decrease. The amounts of federal credits are similar to the prior year but they have an opposite effect on the effective tax rate due to the company having income in 2020 and a loss in 2019.

On December 20, 2019 PL 116-94 was enacted. This PL retroactively extended the Alternative Fuel Credit from the previous expiration date of December 31, 2017 to December 31, 2020. As a result, the Company qualified to take the alternative fuel tax credit from January 1, 2018 to March 31, 2019 in 2020. This resulted in a benefit of \$0.13 million in 2020.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted. The act allows companies to carryback certain net operating losses (NOL) and it changed how the business interest expense limitation is calculated allowing companies to decrease their limit. As a result, the Company was able to carryback NOLs recorded on their financial statement at a 21% tax rate to the 2015 tax year when the tax rate is 35%. This resulted in a benefit of \$1.7 million in 2020.

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

	2020	2019
	(In thousands)	
Deferred income tax assets:		
Future tax credits	\$ 5,581	\$ 5,124
Inventory valuation	163	-
Restructuring reserve	220	1,071
Employee benefits	2,219	2,030
Insurance	616	312
Other comprehensive loss	26,562	6,250
Interest	24	12
Future federal tax credits	-	654
Prepaid revenue	565	528
Other	186	298
Net operating loss and other tax attribute carryovers	2,233	5,628
Total assets	<u>38,369</u>	<u>21,907</u>
Deferred income tax liabilities:		
Property basis and depreciation difference	12,664	13,049
Inventory valuation	-	534
Intangibles	208	286
Income from equity investment	1,239	-
Right of use assets	4,373	-
Pension	7,540	1,633
Total liabilities	<u>26,024</u>	<u>15,502</u>
Valuation allowance - non-current	4,473	3,988
Net deferred income tax asset	<u>\$ 7,872</u>	<u>\$ 2,417</u>

Net non-current deferred income tax assets of \$7.9 million as of March 31, 2020 and net non-current deferred income tax assets of \$2.4 million as of March 31, 2019 are recognized in the Consolidated Balance Sheets.

The Company has State tax credit carryforwards amounting to \$1.5 million (California, net of Federal impact), \$1.9 million (New York, net of Federal impact), and \$2.2 million (Wisconsin, net of Federal impact), which are available to reduce future taxes payable in each respective state through 2034 (Wisconsin), through 2034 (New York), and through 2028 (California). The Company has performed the required assessment regarding the realization of deferred tax assets and at March 31, 2020, the Company has recorded a valuation allowance amounting to \$4.5 million, which relates primarily to tax credit carryforwards which management has concluded it is more likely than not they will not be realized in the ordinary course of operations. Although realization is not assured, management has concluded that it is more likely than not that the deferred tax assets for which a valuation allowance was determined to be unnecessary will be realized in the ordinary course of

Notes to Consolidated Financial Statements

operations. The amount of net deferred tax assets considered realizable, however, could be reduced if actual future income or income taxes rates are lower than estimated or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

Current rules on the accounting for uncertainty on income taxes prescribe a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Those rules also provide guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company classifies the liability for uncertain tax positions in other accrued expenses or other long-term liabilities depending on their expected settlement. The change in the liability for the years ended March 31, 2020 and 2019 consists of the following:

	2020	2019
	(In thousands)	
Beginning balance	\$ 396	\$ 855
Tax positions related to current year:		
Additions	1,123	26
Tax positions related to prior years:		
Additions	569	-
Reductions	(16)	(2)
Lapses in statutes of limitations	(7)	(483)
Balance as of March 31,	<u>\$2,065</u>	<u>\$ 396</u>

As of March 31, 2020 and 2019 unrecognized tax benefits include \$1.6 million and \$0.0 million of tax positions that are highly certain but for which there is uncertainty about the timing. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of these positions would not impact the annual effective tax rate but would accelerate the payment of cash to the tax authority to an earlier period.

The Company recognizes interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense. During the years ended March 31, 2020 and 2019, the Company recognized approximately \$0.2 million increase and \$0.1 million decrease, respectively, in interest and penalties. As of March 31, 2020 and 2019, the Company had approximately \$0.2 million and \$0.0 million of interest and penalties accrued, respectively, associated with unrecognized tax benefits.

Although management believes that an adequate position has been made for uncertain tax positions, there is the possibility that the ultimate resolution could have an adverse effect on the earnings of the Company. Conversely, if resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings. During 2020 the statute of limitations lapsed on one uncertain tax position. The lapse resulted in the position no longer being uncertain. As a result of the statute of limitations lapse and in accordance with its accounting policies, the Company recorded a decrease to the liability and a decrease to tax expense of \$0.0 million.

The federal income tax returns for years after March 31, 2016 are subject to examination. The tax year ended March 31, 2017 is currently under audit with the IRS.

Notes to Consolidated Financial Statements

9. Stockholders' Equity

Preferred Stock — The Company has authorized three classes of preferred stock consisting of 200,000 shares of Six Percent (6%) Voting Cumulative Preferred Stock, par value \$0.25 (“6% Preferred”); 30,000 shares of Preferred Stock Without Par Value to be issued in series by the Board of Directors, none of which are currently designated or outstanding; and 8,200,000 shares of Preferred Stock with \$.025 par value, Class A, to be issued in series by the Board of Directors (“Class A Preferred”). The Board of Directors has designated four series of Class A Preferred including 10% Cumulative Convertible Voting Preferred Stock—Series A (“Series A Preferred”); 10% Cumulative Convertible Voting Preferred Stock—Series B (“Series B Preferred”); Convertible Participating Preferred Stock; and Convertible Participating Preferred Stock, Series 2003.

The Convertible Participating Preferred Stock and Convertible Participating Preferred Stock, Series 2003 are convertible at the holders' option on a one-for-one basis into shares of Class A Common Stock, subject to antidilution adjustments. These series of preferred stock 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 2020 or 2019. In addition, these series of preferred stock have certain distribution rights upon liquidation. Upon conversion, shares of these series of preferred stock become authorized but unissued shares of Class A Preferred and may be reissued as part of another series of Class A Preferred. As of March 31, 2020, the Company has an aggregate of 6,764,145 shares of non-designated Class A Preferred authorized for issuance.

The Convertible Participating Preferred Stock has a liquidation preference of \$12 per share and a stated value of \$11.931 per share. There were 35,355 shares outstanding as of March 31, 2020 and 2,174 conversions during the year. The Convertible Participating Preferred Stock, Series 2003 was issued as partial consideration of the purchase price in the Chiquita Processed Foods acquisition. The 967,742 shares issued in that 2003 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 series has a liquidation preference of \$15.50 per share and has 500 shares outstanding as of March 31, 2020.

There are 407,240 shares of Series A Preferred outstanding as of March 31, 2020 which are convertible into one share of Class A Common Stock and one share of Class B Common stock for every 20 shares of Series A Preferred. There are 400,000 shares of Series B Preferred outstanding as of March 31, 2020 which are convertible into one share of Class A Common Stock and one share of Class B Common Stock for every 30 shares of Series B preferred. There are 200,000 shares of 6% Preferred outstanding as of March 31, 2020 which are callable at their par value at any time at the option of the Company. The Company paid dividends of \$20,000 on the Series A and Series B Preferred and \$3,000 on the 6% Preferred during each of fiscal 2020 and 2019.

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. During 2020, there were no shares of Class B Common Stock issued in lieu of cash compensation under the Company's Profit Sharing Bonus Plan.

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, 2020 and 2019. Additionally, there were 35,855 and 38,029 shares of Class A reserved for conversion of the Participating Preferred Stock as of March 31, 2020 and 2019, respectively.

Treasury Stock — During 2020, the Company repurchased \$8.8 million, or 298,812 shares of its Class A Common Stock and \$3.9 million or 132,305 shares of its Class B Common Stock. As of March 31, 2020, there is a total of \$88.4 million, or 3,042,092 shares, of repurchased stock. These shares are not considered outstanding. The Company contributed \$0.1 million or 2,946 treasury shares for the 401(k) match in 2020 as described in Note 8, Retirement Plans.

Notes to Consolidated Financial Statements

10. Retirement Plans

The Company has a noncontributory defined benefit pension plan (the “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, 2020 and a statement of the unfunded status as of March 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 250,461	\$236,134
Service cost	9,244	8,954
Interest cost	9,064	9,131
Liability gain due to curtailment	(1,114)	-
Actuarial loss	20,146	4,113
Benefit payments and expenses	(9,574)	(7,871)
Benefit obligation at end of year	\$ 278,227	\$250,461
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 233,112	\$212,844
Actual (loss) gain on plan assets	(46,325)	26,731
Employer contributions	26,000	2,100
Benefit payments and expenses	(10,302)	(8,563)
Fair value of plan assets at end of year	\$ 202,485	\$233,112
Unfunded Status	\$ (75,742)	\$ (17,349)

The unfunded status increased by \$58.4 million during 2020 reflecting the actual fair value of plan assets and the projected benefit obligation as of March 31, 2020. This unfunded status increase was recognized via the actual loss on plan assets and the increase in accumulated other comprehensive loss of \$60.9 million after the income tax expense of \$20.3 million. The increase in projected benefit obligation was a function of using an updated mortality table. The discount rate reduced from 4.14% in 2019 to 3.69% in 2020. During 2020, the Company converted to the Pri-2012 mortality study with the Blue Collar adjustment, with a generational projection of future mortality improvements from 2006 using Scale MP-2019 for calculating the pension obligation in 2019 and the related pension expense in 2020. The Company utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in determination of the benefit obligation to their underlying projected cash flows.

The Plan was amended to freeze accruals to new hires and rehires effective January 1, 2020. This amendment triggered a curtailment event under ASC 715. The curtailment accelerated statement of earnings recognition of the unrecognized prior service cost resulting in \$0.1 million curtailment charge.

Notes to Consolidated Financial Statements

Plan assets decreased from \$233.1 million as of March 31, 2019 to \$202.5 million as of March 31, 2020 due primarily to a loss on plan assets of \$46.3 million from a COVID-19 induced deterioration in market conditions, partially offset by a \$26.0 million contribution by the Company. The Company made this contribution to partially offset the declines in the portfolio.

	2020	2019
	(In thousands)	
Amounts Recognized in Accumulated Other Comprehensive Pre-Tax Loss		
Prior service cost	\$ (349)	\$ (587)
Net loss	(105,866)	(24,305)
Accumulated other comprehensive pre-tax loss	<u>\$(106,215)</u>	<u>\$(24,892)</u>

	Pension and post retirement plan adjustments, net of tax
	(In thousands)
Accumulated Other Comprehensive Loss	
Balance at March 31, 2019	\$ (18,285)
Other comprehensive loss	(60,935)
Balance at March 31, 2020	<u>\$(79,220)</u>

The following table provides the components of net periodic benefit cost for the Plan for fiscal years 2020 and 2019:

	2020	2019
	(In thousands)	
Service cost including administration	\$ 9,935	\$ 9,646
Interest cost	9,064	9,131
Expected return on plan assets	(16,746)	(15,104)
Amortization of net loss	579	1,597
Prior service cost	120	119
Net periodic benefit cost	<u>\$ 2,952</u>	<u>\$ 5,389</u>
Settlement/curtailment expense	118	-
Net periodic benefit cost with curtailment	<u>\$ 3,070</u>	<u>\$ 5,389</u>

The Plan's accumulated benefit obligation was \$256.4 million at March 31, 2020 and \$231.2 million at March 31, 2019.

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.

Notes to Consolidated Financial Statements

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

	2020	2019
Weighted Average Assumptions for Balance Sheet Liability at End of Year:		
Discount rate - projected benefit obligation	3.69%	4.14%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

Weighted Average Assumptions for Benefit Cost at Beginning of Year:

Discount rate - benefit obligations	4.14%	4.15%
Discount rate - interest cost	3.74%	3.87%
Discount rate - service cost	4.34%	4.25%
Discount rate - interest on service cost	3.69%	4.14%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

The Company's plan assets consist of the following:

	Target Allocation 2021	Percentage of Plan Assets at March 31, 2020 2019	
Equity securities	99%	97%	99%
Debt securities	-	-	-
Real estate	-	-	-
Cash	1%	3%	1%
Total	100%	100%	100%

Plan Assets

Equity securities	99%	97%	99%
Debt securities	-	-	-
Real estate	-	-	-
Cash	1%	3%	1%
Total	100%	100%	100%

	2020 Market Value	2019 Market Value
(In thousands)		

Assets by Industry Type

Asset Category

Cash and cash equivalents:		
Money market funds	\$ 7,058	\$ 1,387
Total cash and cash equivalents	7,058	1,387

Common equity securities:

Materials	8,772	5,331
Industrials	15,440	16,080
Telecommunication services	25,093	24,370
Consumer staples	42,522	43,486
Energy	28,538	38,230
Financials	22,275	34,521
Health care	-	4,247
Information technology	20,657	28,750
Utilities	32,130	36,710
Total common equity securities	195,427	231,725
Total assets	\$ 202,485	\$ 233,112

Notes to Consolidated Financial Statements

Expected Return on Plan Assets

The expected long-term rate of return on Plan assets is 7.25%. The Company expects 7.25% to fall within the 40-to-50 percentile range of returns on investment portfolios with asset diversification similar to that of the 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 Plan. 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 Company's loss on plan assets during 2020 was 19.9% as compared to the S&P 500 unaudited loss (excluding dividends) of 8.8%. Plan assets include Company common stock with a fair market value of \$16.6 million as of March 31, 2020 and \$12.8 million as of March 31, 2019.

Cash Flows

Expected contributions for fiscal year ending March 31, 2021 (in thousands):

Expected Employer Contributions	\$	-
Expected Employee Contributions		-

Estimated future benefit payments reflecting expected future service for the fiscal years ending March 31 (in thousands):

2021	\$ 10,102
2022	10,785
2023	11,490
2024	12,259
2025	13,022
2026-2030	75,047

401(k) Plans

The Company also has employees' savings 401(k) plans 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 \$0.4 million and \$1.4 million in fiscal 2020 and 2019, respectively. In fiscal 2020 and 2019, the matching contribution was entirely treasury stock. This stock portion of the matching contribution is valued at current market value while the treasury stock is valued at cost.

Notes to Consolidated Financial Statements

11. Fair Value of Financial Instruments

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

	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Long-term debt, including current portion	\$217,581	\$217,559	\$266,245	\$266,140

The estimated fair value for long-term debt is determined by the quoted market prices for similar debt (comparable to the Company's financial strength) or current rates offered to the Company for debt with the same maturities which is Level 2 from the fair value hierarchy. Since quoted prices for identical instruments in active markets are not available (Level 1), the Company makes use of observable market based inputs to calculate fair value, which is Level 2.

12. Inventories

Effective December 30, 2007 (beginning of 4th quarter of Fiscal Year 2008), the Company changed its inventory valuation method from the lower of cost, determined under the FIFO method, or market to the lower of cost, determined under the LIFO method, or market. In the high inflation environment that the Company was experiencing, the Company believed that the LIFO inventory method was preferable over the FIFO method because it better compares the cost of current production to current revenue. The effect of LIFO was to increase continuing net earnings by \$12.8 million in 2020 and to reduce net earnings by \$30.4 million in 2019, compared to what would have been reported using the FIFO inventory method. The increase in earnings per share was \$1.38 (\$1.37 diluted) in 2020; and a reduction in earnings per share of \$3.14 (\$3.14 diluted) in 2019. There were LIFO liquidations of \$6.6 million in 2020 and \$28.7 million in 2019. Most of this LIFO liquidation in 2019 is reported as Discontinued Operations since it related to the Modesto fruit (see Discontinued Operations Note 3). The inventories by category and the impact of using the LIFO method are shown in the following table:

	2020	2019
	(In thousands)	
Finished products	\$ 351,251	\$ 454,920
In process	31,173	42,045
Raw materials and supplies	173,474	166,060
	555,898	663,025
Less excess of FIFO cost over LIFO cost	144,267	161,341
Total inventories	\$ 411,631	\$ 501,684

13. Other Operating Income and Expense

Other operating income in 2020 includes a gain on the partial sale of a plant in the Midwest of \$3.3 million and a gain on the sale of a plant in the Northwest of \$8.2 million. The Company also recorded a gain on the sale of unused fixed assets of \$1.2 million.

Other operating income in 2019 includes a gain of the sale of a plant in the Northwest of \$4.1 million, a gain on the sale of a plant in the Northeast \$2.0 million and a gain on the partial closure of a plant of \$0.8 million. The Company also recorded a loss on the sale of an Eastern plant of \$0.6 million. The Company also recorded a gain for interest rate swap of 0.3 million.

Notes to Consolidated Financial Statements

14. Segment Information

The Company manages its business on the basis of three reportable segments — the primary segment is the packaging and sale of fruits and vegetables, secondarily, the packaging and sale of prepared food products, third, the sale of snack products and finally, other products. The Company markets its product almost entirely in the United States. Export sales represented 6.5% and 7.5%, of total sales in 2020 and 2019, respectively. In 2020 and 2019, the sale of Green Giant vegetables accounted for 9% and 6% of net sales, respectively. “Other” in the table below represents activity related to can sales, trucking, seed sales, and flight operations.

	Fruit and Vegetable	Prepared Foods	Snack	Other	Total
(In thousands)					
2020:					
Net sales	\$1,202,528	\$ 105,044	\$11,475	\$ 16,722	\$1,335,769
Operating income (loss)	65,921	3,774	837	(8)	70,524
Identifiable assets	853,438	51,803	2,054	773	908,068
Capital expenditures	63,543	2,122	19	756	66,440
Depreciation and amortization	26,486	3,564	207	676	30,933
2019:					
Net sales	\$1,091,997	\$ 79,593	\$ 9,684	\$ 18,307	\$1,199,581
Operating loss	(34,145)	(2,736)	(8)	(1,190)	(38,079)
Identifiable assets	788,860	55,378	2,056	1,347	847,641
Capital expenditures	33,794	1,427	54	2,354	37,629
Depreciation and amortization	24,785	3,980	249	919	29,933

Classes of similar products/services:	2020	2019
(In thousands)		
Net Sales:		
Green Giant *	\$ 122,764	\$ 71,161
Canned vegetables	877,391	815,780
Frozen	104,980	113,115
Fruit	97,393	91,941
Prepared foods	105,044	79,593
Snack	11,475	9,684
Other	16,722	18,307
Total	\$1,335,769	\$1,199,581

* Green Giant includes canned and frozen vegetables exclusively for B&G Foods.

15. 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, workers’ compensation along with other employee claims, tort and other general liability claims, for which it carries insurance, as well as patent infringement and related litigation. The Company is in a highly regulated industry and is also periodically involved in government actions for regulatory violations and other matters surrounding the manufacturing of its products, including, but not limited to, environmental, employee, and product safety issues. 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.

Notes to Consolidated Financial Statements

16. Plant Restructuring

During 2020, the Company recorded a restructuring charge of \$7.0 million related to the closing of plants in the Midwest and Northwest of which 5.3 million was for accelerated amortization of right-of-use operating lease assets, \$2.4 million was mostly related to equipment moves and \$1.2 million was related to severance. The Company also recorded a credit of \$1.9 million for the reduced lease liability of previously impaired leases.

During 2019, the Company recorded a restructuring charge of \$11.7 million. Of this amount, \$2.3 relates to the partial closure of a plant in the Midwest (\$1.8 million is equipment moves and \$0.5 is severance), \$1.3 million related to the sale of a plant in the Northeast (\$0.8 million is equipment moves and \$0.5 million is severance), and \$0.3 million for the partial sale of a plant in the Northwest (\$0.2 million is severance, \$0.1 million is mostly equipment moves). In addition, the company recorded a charge for an impairment of long-term assets of \$7.8 million.

These charges are included under Plant Restructuring in the Consolidated Statements of Net Earnings. Severance Payable and Other Costs Payable are included in Other Accrued Expenses on the Consolidated Balance Sheets.

The following table summarizes the severance and other cost recorded and the accruals established during 2019 and 2020:

	Severance Payable	Other Cost Payable	Total
Balance March 31, 2018	\$ -	\$ -	\$ -
Charge to expense	1,508	10,149	11,657
Cash payments/write offs	(1,283)	(10,148)	(11,431)
Balance March 31, 2019	225	1	226
Charge to expense	1,229	5,817	7,046
Cash payments/write offs	(1,252)	(5,818)	(7,070)
Balance March 31, 2020	\$ 202	\$ -	\$ 202

17. Related Party Transactions

A small percentage (less than 1% in fiscal 2020 and 2019) of vegetables supplied to the Company's New York packaging plants are grown by a director of Seneca Foods Corporation, which supplied the Company approximately \$2.3 million and \$2.4 million, pursuant to a raw vegetable grower contract in fiscal 2020 and 2019, respectively. The Chairman of the Audit Committee reviewed the relationship and determined that the contract was negotiated at arm's length and on no more favorable terms than to other growers in the marketplace.

During the years ended March 31, 2020 and 2019, the Company made charitable contributions to a related party foundation in the amount of approximately \$0.3 million and \$0.3 million, respectively. The Foundation is a nonprofit entity that supports charitable activities by making grants to unrelated organizations or institutions. This Foundation is managed by current employees of the Company.

18. Subsequent Event

Subsequent to 2020 year end, the Company entered into an Amended and Restated Loan and Guaranty Agreement with Farm Credit East. This agreement continues the \$100.0 million unsecured term loan and extends the maturity date to June 2025. The loan will bear a fixed interest rate of 3.3012%. This agreement also contains certain covenants, including minimum EBITDA and minimum tangible net worth.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Seneca Foods Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Seneca Foods Corporation (the “Company”) as of March 31, 2020 and the related statements of consolidated net earnings, comprehensive income (loss), stockholders' equity, and cash flows for the year ended March 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and the results of its operations and its cash flows for the year ended March 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We also have audited the Company’s internal control over financial reporting as of March 31, 2020, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), based on criteria established in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated July 2, 2020 expresses an unqualified opinion.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for leases in 2020 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective April 1, 2019. The Company adopted the new lease standard using the optional transition method.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.



We have served as the Company’s auditor since 2020.

Southfield, Michigan
July 2, 2020

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Seneca Foods Corporation (the “Company”) as of March 31, 2019, the related consolidated statement of earnings (loss), comprehensive income (loss), stockholders’ equity, and cash flows for the year ended March 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2019, and the results of its operations and its cash flows for the year ended March 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

BDO USA, LLP

Milwaukee, Wisconsin
June 13, 2019

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2020. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment, management believes that, as of March 31, 2020, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accountant has issued its report on the effectiveness of the Company's internal control over financial reporting. Their report appears on the next page.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To the Stockholders and Board of Directors of Seneca Foods Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting as of March 31, 2020 of Seneca Foods Corporation (the “Company”), based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO framework”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020 based on criteria established in the COSO framework.

We also have audited the accompanying consolidated balance sheet of the Company as of March 31, 2020, the related consolidated statements of net earnings, comprehensive income (loss), stockholders' equity, and cash flows for the year ended March 31, 2020, and the related notes (collectively referred to as the “financial statements”), in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our report dated July 2, 2020, expresses an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Item 9A, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



We have served as the Company's auditor since 2020.

Southfield, Michigan

July 2, 2020

Corporate Information

The Company's common stock is traded on The NASDAQ Global Stock Market. The 7.4 million Class A outstanding shares and 1.7 million Class B outstanding shares are owned by 169 and 185 shareholders of record, as of March 31, 2020 and 2019, respectively. The high and low closing prices of the Company's common stock during each quarter of the past two years are shown below:

Class A: Quarter	2020		2019	
	High	Low	High	Low
First	\$ 27.83	\$ 21.97	\$ 30.05	\$ 26.45
Second	32.85	24.48	33.98	25.45
Third	41.62	30.17	35.90	26.84
Fourth	41.88	25.04	31.34	23.71

Class B: Quarter	2020		2019	
	High	Low	High	Low
First	\$ 28.60	\$ 24.08	\$ 32.55	\$ 27.45
Second	32.65	24.71	31.90	27.00
Third	41.00	31.34	35.37	28.00
Fourth	41.00	27.53	30.67	25.67

As of March 31, 2020, the most restrictive credit agreement limitation on the Company's payment of dividends, to holders of Class A or Class B Common Stock is an annual total limitation of \$50,000, reduced by aggregate annual dividend payments totaling \$23,000 that 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.

Corporate Information

Directors

Kathryn J. Boor, Ph.D. Dean, College of Agriculture and Life Sciences Cornell University	Samuel T. Hubbard, Jr. Retired Chairman and Chief Executive Officer, High Falls Brewing Company, LLC	Susan W. Stuart Marketing Consultant
Peter R. Call President My-T Acres, Inc.	Kraig H. Kayser President and Chief Executive Officer	Arthur S. Wolcott Chairman
John P. Gaylord President Jacintoport Terminal Company	Thomas Paulson Retired Chief Financial Officer Tennant Company	Keith A. Woodward Former Chief Financial Officer Tennant Company

Officers

Arthur S. Wolcott Chairman	Timothy R. Nelson Senior Vice President Operations	Aaron M. Girard Senior Vice President of Logistics
Kraig H. Kayser President and Chief Executive Officer	Carl A. Cichetti Senior Vice President - Technology and Planning and Chief Information Officer	Matt J. Henschler Senior Vice President Technical Services and Development
Paul L. Palmby Executive Vice President and Chief Operating Officer	Dean E. Erstad Senior Vice President - Sales and Marketing	John D. Exner General Counsel and Assistant Secretary
Timothy J. Benjamin Senior Vice President Chief Financial Officer and Treasurer	Cynthia L. Fohrd Senior Vice President and Chief Administrative Officer	Jeffrey L. Van Riper Vice President, Controller and Secretary
		Sarah S. Mortensen Assistant Secretary

Operations

Western Vegetable Operations Jon A. Brekken Vice President	Truitt Bros. Jeffrey M. Geyer President/General Manager	Strategic Sourcing Leon Lindsay Vice President
Human Resources Amice Jo Castleberry Vice President	Accounting Mary Sagona Vice President	Eastern Vegetable Operations Eric E. Martin Vice President
Procurement and Contract Manufacturing Mark W. Forsting Vice President	Technical Services Steven F. Lammers Vice President	Technical Services Benjamin M. Scherwitz Vice President
	Seneca Snack Michael Wolcott General Manager	Customer Service Richard L. Waldorf Vice President

Sales and Marketing Groups

Branded Sales Carl B. Bowling Vice President	International Kevin F. Lipps Vice President	E-Business Aaron L. Wadell Vice President
Foodservice Dry Grocery Beau P. Simonson Vice President	Industrial and Ingredient Sales Victoria A. Ninneman Vice President	Marketing Bruce S. Wolcott Vice President
Private Label Retail George E. Hopkins, III Vice President	Frozen Sales Stephen J. Ott Vice President	National Chain Accounts Richard D. Yokel Vice President

Corporate Information

Manufacturing Plants and Warehouses

	Square Footage	Acres
	(000)	
Food Group		
Nampa, Idaho	243	16
Payette, Idaho	392	43
Princeville, Illinois	286	478
East Bernstadt, Kentucky	246	15
Hart, Michigan	289	92
Traverse City, Michigan	58	43
Blue Earth, Minnesota	286	350
Glencoe, Minnesota	646	1,278
LeSueur, Minnesota	82	7
Montgomery, Minnesota	549	1,162
Rochester, Minnesota	835	634
Geneva, New York	769	602
Leicester, New York	200	91
Dayton, Oregon	82	19
Salem, Oregon	469	22
Dayton, Washington	250	28
Yakima, Washington	122	8
Baraboo, Wisconsin	584	11
Cambria East, Wisconsin	412	406
Cambria West, Wisconsin	210	295
Clyman, Wisconsin	437	724
Cumberland, Wisconsin	389	305
Gillett, Wisconsin	324	105
Janesville, Wisconsin	1,227	342
Mayville, Wisconsin	297	367
Oakfield, Wisconsin	229	2,277
Ripon, Wisconsin	589	75
Non-Food Group		
Marion, New York	6	-
Penn Yan, New York	27	4
Total	10,535	9,799

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.

Shareholder Information

For investor information, including comprehensive earnings releases: <http://www.senecafoods.com/investors>

Corporate Information

Annual Meeting

The 2020 Annual Meeting of Shareholders will be held on Tuesday, August 18, 2020, beginning at 1:00 PM (EDT) at the Company's offices at 3736 South Main Street, Marion, New York. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders of record as of July 15, 2020.

How To Reach Us

Seneca Foods Corporation
3736 South Main Street
Marion, New York 14505
(315) 926-8100
www.senecafoods.com/investors
investors@senecafoods.com

Additional Information

Annual Report and Other Investor Information

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2020, as filed with the Securities and Exchange Commission, will be provided by the Company to any shareholder who so requests in writing to:

Jeffrey L. Van Riper
Seneca Foods Corporation
3736 South Main Street
Marion, New York 14505
(315) 926-8100

This annual report is also available online at <http://www.senecafoods.com/investors>

Foundation/Contribution Requests

Seneca Foods Foundation
Cynthia L. Fohrd
3736 South Main Street
Marion, New York 14505
(315) 926-8100
foundation@senecafoods.com

Independent Registered Public Accounting Firm

Plante Moran, PC
Southfield, Michigan

General Counsel

Bond, Schoeneck & King, PLLC
Buffalo, New York

Transfer Agent and Registrar

Computershare
211 Quality Circle, Suite 210
College Station, TX 77845
(800) 622-6757 (US, Canada, Puerto Rico)
(781) 575-4735 (Non-US)
www.computershare.com/investor

Corporate Governance

www.senecafoods.com/investors/corporate-governance

Code of Business Ethic

www.senecafoods.com/code-ethics
Hotline (800) 213-9185

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Cover Photo:
Seneca Fleet Trucks
Janesville, Wisconsin loading dock
Photographed by Scott Jacobson
April, 2020



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