

SANFILIPPO JOHN B & SON INC  
Form 10-Q  
May 01, 2019

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended March 28, 2019**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**Commission File Number 0-19681**

**JOHN B. SANFILIPPO & SON, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Delaware**  
**(State or Other Jurisdiction of**  
**Incorporation or Organization)**

**36-2419677**  
**(I.R.S. Employer**  
**Identification No.)**

**1703 North Randall Road**

**Elgin, Illinois**  
**(Address of Principal Executive Offices)**  
**(847) 289-1800**

**60123-7820**  
**(Zip Code)**

**(Registrant's Telephone Number, Including Area Code)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Yes No

As of April 24, 2019, 8,791,506 shares of the Registrant's Common Stock, \$0.01 par value per share and 2,597,426 shares of the Registrant's Class A Common Stock, \$0.01 par value per share, were outstanding.

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**JOHN B. SANFILIPPO & SON, INC.**

**FORM 10-Q**

**FOR THE QUARTER ENDED MARCH 28, 2019**

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****JOHN B. SANFILIPPO & SON, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(Dollars in thousands, except share and per share amounts)

|   | For the Quarter Ended |                | For the Thirty-Nine Weeks Ended |                |
|---|-----------------------|----------------|---------------------------------|----------------|
|   | March 28, 2019        | March 29, 2018 | March 28, 2019                  | March 29, 2018 |
| Net sales   | \$ 201,834            | \$ 202,786     | \$ 659,439                      | \$ 677,255     |
| Cost of sales   | 163,019               | 169,679        | 544,787                         | 571,296        |
| Gross profit  | 38,815                | 33,107         | 114,652                         | 105,959        |
| Operating expenses:   |                       |                |                                 |                |
| Selling expenses  | 13,810                | 11,626         | 46,070                          | 38,415         |
| Administrative expenses   | 9,597                 | 7,457          | 26,482                          | 21,803         |
| Total operating expenses  | 23,407                | 19,083         | 72,552                          | 60,218         |
| Income from operations  | 15,408                | 14,024         | 42,100                          | 45,741         |
| Other expense:  |                       |                |                                 |                |
| Interest expense including \$278, \$340, \$880 and \$779 to related parties                 | 788                   | 1,004          | 2,465                           | 2,590          |
| Rental and miscellaneous expense, net   | 324                   | 329            | 891                             | 1,192          |
| Other expense   | 487                   | 492            | 1,460                           | 1,477          |
| Total other expense, net  | 1,599                 | 1,825          | 4,816                           | 5,259          |
| Income before income taxes  | 13,809                | 12,199         | 37,284                          | 40,482         |
| Income tax expense  | 3,478                 | 3,647          | 9,083                           | 13,610         |
| Net income  | \$ 10,331             | \$ 8,552       | \$ 28,201                       | \$ 26,872      |
| Other comprehensive income:   |                       |                |                                 |                |
| Amortization of prior service cost and actuarial loss included in net periodic pension cost | 263                   | 279            | 789                             | 839            |
| Income tax expense related to pension adjustments   | (66)                  | (69)           | (198)                           | (288)          |
| Other comprehensive income, net of tax  | 197                   | 210            | 591                             | 551            |

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|                                     |           |          |           |           |
|-------------------------------------|-----------|----------|-----------|-----------|
| Comprehensive income                | \$ 10,528 | \$ 8,762 | \$ 28,792 | \$ 27,423 |
| Net income per common share-basic   | \$ 0.90   | \$ 0.75  | \$ 2.47   | \$ 2.36   |
| Net income per common share-diluted | \$ 0.90   | \$ 0.75  | \$ 2.45   | \$ 2.35   |

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

**JOHN B. SANFILIPPO & SON, INC.****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Dollars in thousands, except share and per share amounts)

|  | <b>March 28,<br/>2019</b> | <b>June 28,<br/>2018</b> | <b>March 29,<br/>2018</b> |
|--|---------------------------|--------------------------|---------------------------|
| <b>ASSETS</b>  |                           |                          |                           |
| <b>CURRENT ASSETS:</b>   |                           |                          |                           |
| Cash   | \$ 1,090                  | \$ 1,449                 | \$ 1,013                  |
| Accounts receivable, less allowance for doubtful accounts of \$324, \$270 and \$286          | 57,768                    | 65,426                   | 65,129                    |
| Inventories  | 178,909                   | 174,362                  | 184,770                   |
| Prepaid expenses and other current assets  | 6,168                     | 6,645                    | 7,560                     |
| <b>TOTAL CURRENT ASSETS</b>  | <b>243,935</b>            | <b>247,882</b>           | <b>258,472</b>            |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>  |                           |                          |                           |
| Land   | 9,285                     | 9,285                    | 9,285                     |
| Buildings  | 109,328                   | 108,540                  | 108,148                   |
| Machinery and equipment  | 207,769                   | 198,321                  | 198,990                   |
| Furniture and leasehold improvements   | 5,058                     | 5,015                    | 4,970                     |
| Vehicles   | 643                       | 526                      | 535                       |
| Construction in progress   | 3,488                     | 2,618                    | 1,757                     |
|  | 335,571                   | 324,305                  | 323,685                   |
| Less: Accumulated depreciation   | 225,626                   | 217,689                  | 217,135                   |
|  | 109,945                   | 106,616                  | 106,550                   |
| Rental investment property, less accumulated depreciation of \$11,022, \$10,431 and \$10,233 | 17,956                    | 18,462                   | 18,660                    |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>   | <b>127,901</b>            | <b>125,078</b>           | <b>125,210</b>            |
| Cash surrender value of officers' life insurance and other assets                            | 8,412                     | 10,565                   | 8,846                     |
| Deferred income taxes  | 4,553                     | 5,024                    | 5,579                     |
| Goodwill   | 9,650                     | 9,650                    | 9,650                     |
| Intangible assets, net   | 15,298                    | 17,654                   | 18,499                    |
| <b>TOTAL ASSETS</b>  | <b>\$ 409,749</b>         | <b>\$ 415,853</b>        | <b>\$ 426,256</b>         |

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



**JOHN B. SANFILIPPO & SON, INC.****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Dollars in thousands, except share and per share amounts)

|   | <b>March 28,<br/>2019</b> | <b>June 28,<br/>2018</b> | <b>March 29,<br/>2018</b> |
|---|---------------------------|--------------------------|---------------------------|
| <b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>  |                           |                          |                           |
| <b>CURRENT LIABILITIES:</b>   |                           |                          |                           |
| Revolving credit facility borrowings  | \$ 35,099                 | \$ 31,278                | \$ 56,579                 |
| Current maturities of long-term debt, including related party debt of \$4,369, \$4,341 and \$4,332 and net of unamortized debt issuance costs of \$37, \$45 and \$47  | 7,297                     | 7,169                    | 7,128                     |
| Accounts payable  | 45,158                    | 60,340                   | 48,075                    |
| Bank overdraft  | 1,722                     | 2,062                    | 3,520                     |
| Accrued payroll and related benefits  | 14,744                    | 6,415                    | 7,530                     |
| Other accrued expenses  | 10,348                    | 9,929                    | 9,552                     |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>114,368</b>            | <b>117,193</b>           | <b>132,384</b>            |
| <b>LONG-TERM LIABILITIES:</b>   |                           |                          |                           |
| Long-term debt, less current maturities, including related party debt of \$12,227, \$15,507 and \$16,596 and net of unamortized debt issuance costs of \$52, \$79 and \$89                                      | 21,867                    | 27,356                   | 29,164                    |
| Retirement plan   | 21,926                    | 21,288                   | 21,597                    |
| Other   | 7,170                     | 7,014                    | 7,025                     |
| <b>TOTAL LONG-TERM LIABILITIES</b>  | <b>50,963</b>             | <b>55,658</b>            | <b>57,786</b>             |
| <b>TOTAL LIABILITIES</b>  | <b>165,331</b>            | <b>172,851</b>           | <b>190,170</b>            |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                           |                          |                           |
| <b>STOCKHOLDERS EQUITY:</b>   |                           |                          |                           |
| Class A Common Stock, convertible to Common Stock on a per share basis, cumulative voting rights of ten votes per share, \$.01 par value; 10,000,000 shares authorized, 2,597,426 shares issued and outstanding | 26                        | 26                       | 26                        |
| Common Stock, non-cumulative voting rights of one vote per share, \$.01 par value; 17,000,000 shares authorized, 8,909,406, 8,865,475 and 8,865,475 shares issued   | 89                        | 89                       | 89                        |
| Capital in excess of par value  | 121,650                   | 119,952                  | 119,336                   |
| Retained earnings   | 126,447                   | 127,320                  | 121,692                   |
| Accumulated other comprehensive loss  | (2,590)                   | (3,181)                  | (3,853)                   |
| Treasury stock, at cost; 117,900 shares of Common Stock   | (1,204)                   | (1,204)                  | (1,204)                   |
| <b>TOTAL STOCKHOLDERS EQUITY</b>  | <b>244,418</b>            | <b>243,002</b>           | <b>236,086</b>            |



|   |            |            |            |
|---|------------|------------|------------|
| TOTAL LIABILITIES & STOCKHOLDERS EQUITY | \$ 409,749 | \$ 415,853 | \$ 426,256 |
|---|------------|------------|------------|

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

**JOHN B. SANFILIPPO & SON, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Unaudited)

(Dollars in thousands, except share and per share amounts)

|   | Class A Common<br>Stock |        | Common Stock |        | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss |            | Treasury<br>Stock | Total      |
|---|-------------------------|--------|--------------|--------|--------------------------------------|----------------------|---|------------|-------------------|------------|
|   | Shares                  | Amount | Shares       | Amount |                                      |                      |   |            |                   |            |
| Balance, June 28,<br>2018   | 2,597,426               | \$ 26  | 8,865,475    | \$ 89  | \$ 119,952                           | \$ 127,320           | \$ (3,181)                                    | \$ (1,204) |                   | \$ 243,002 |
| Net income  |                         |        |              |        |                                      | 6,606                |   |            |                   | 6,606      |
| Cash dividends<br>(\$2.55 per share)  |                         |        |              |        |                                      | (29,074)             |   |            |                   | (29,074)   |
| Pension liability<br>amortization, net<br>of income tax<br>expense of \$66    |                         |        |              |        |                                      |                      | 197   |            |                   | 197        |
| Stock-based<br>compensation<br>expense  |                         |        |              |        | 616                                  |                      |   |            |                   | 616        |
| Balance,<br>September 27,<br>2018   | 2,597,426               | \$ 26  | 8,865,475    | \$ 89  | \$ 120,568                           | \$ 104,852           | \$ (2,984)                                    | \$ (1,204) |                   | \$ 221,347 |
| Net income  |                         |        |              |        |                                      | 11,264               |   |            |                   | 11,264     |
| Pension liability<br>amortization, net<br>of income tax<br>expense of \$66    |                         |        |              |        |                                      |                      | 197   |            |                   | 197        |
| Equity award<br>exercises, net of<br>shares withheld<br>for employee<br>taxes |                         |        | 33,352       |        | (335)                                |                      |   |            |                   | (335)      |
| Stock-based<br>compensation<br>expense  |                         |        |              |        | 900                                  |                      |   |            |                   | 900        |
| Balance,<br>December 27,<br>2018  | 2,597,426               | \$ 26  | 8,898,827    | \$ 89  | \$ 121,133                           | \$ 116,116           | \$ (2,787)                                    | \$ (1,204) |                   | \$ 233,373 |
| Net income  |                         |        |              |        |                                      | 10,331               |   |            |                   | 10,331     |
| Pension liability<br>amortization, net<br>of income tax                       |                         |        |              |        |                                      |                      | 197   |            |                   | 197        |

|   |           |       |           |       |            |            |            |            |            |
|---|-----------|-------|-----------|-------|------------|------------|------------|------------|------------|
| expense of \$66   |           |       |           |       |            |            |            |            |            |
| Equity award exercises, net of shares withheld for employee taxes |           |       | 10,579    |       | (4)        |            |            |            | (4)        |
| Stock-based compensation expense                                  |           |       |           |       | 521        |            |            |            | 521        |
| Balance, March 28, 2019   | 2,597,426 | \$ 26 | 8,909,406 | \$ 89 | \$ 121,650 | \$ 126,447 | \$ (2,590) | \$ (1,204) | \$ 244,418 |

|  | Class A Common Stock |        | Common Stock |        |            | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|--|----------------------|--------|--------------|--------|------------|--------------------------------|-------------------|--------------------------------------|----------------|-------|
|  | Shares               | Amount | Shares       | Amount | Par Value  | Earnings                       | Loss              | Stock                                | Total          |       |
| Balance, June 29, 2017   | 2,597,426            | \$ 26  | 8,801,641    | \$ 88  | \$ 117,772 | \$ 123,190                     | \$ (4,404)        | \$ (1,204)                           | \$ 235,468     |       |
| Net income   |                      |        |              |        |            | 10,711                         |                   |                                      | 10,711         |       |
| Cash dividends (\$2.50 per share)                                  |                      |        |              |        |            | (28,370)                       |                   |                                      | (28,370)       |       |
| Pension liability amortization, net of income tax expense of \$108 |                      |        |              |        |            |                                | 171               |                                      | 171            |       |
| Equity award exercises   |                      |        | 16,242       |        | 16         |                                |                   |                                      | 16             |       |
| Stock-based compensation expense                                   |                      |        |              |        | 538        |                                |                   |                                      | 538            |       |
| Balance, September 28, 2017  | 2,597,426            | \$ 26  | 8,817,883    | \$ 88  | \$ 118,326 | \$ 105,531                     | \$ (4,233)        | \$ (1,204)                           | \$ 218,534     |       |
| Net income   |                      |        |              |        |            | 7,609                          |                   |                                      | 7,609          |       |
| Pension liability amortization, net of income tax expense of \$111 |                      |        |              |        |            |                                | 170               |                                      | 170            |       |
| Equity award exercises, net of shares withheld for employee taxes  |                      |        | 41,214       | 1      | (632)      |                                |                   |                                      | (631)          |       |
| Stock-based compensation expense                                   |                      |        |              |        | 891        |                                |                   |                                      | 891            |       |
| Balance, December 28, 2017   | 2,597,426            | \$ 26  | 8,859,097    | \$ 89  | \$ 118,585 | \$ 113,140                     | \$ (4,063)        | \$ (1,204)                           | \$ 226,573     |       |
| Net income   |                      |        |              |        |            | 8,552                          |                   |                                      | 8,552          |       |

|   |           |       |           |       |            |            |            |            |            |
|---|-----------|-------|-----------|-------|------------|------------|------------|------------|------------|
| Pension liability amortization, net of income tax expense of \$69 |           |       |           |       |            |            | 210        |            | 210        |
| Equity award exercises, net of shares withheld for employee taxes |           |       | 6,378     |       |            |            |            |            |            |
| Stock-based compensation expense                                  |           |       |           |       |            | 751        |            |            | 751        |
| Balance, March 29, 2018   | 2,597,426 | \$ 26 | 8,865,475 | \$ 89 | \$ 119,336 | \$ 121,692 | \$ (3,853) | \$ (1,204) | \$ 236,086 |

**JOHN B. SANFILIPPO & SON, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in thousands)

|  | <b>For the Thirty-Nine Weeks Ended</b> |                       |
|--|--|-----------------------|
|  | <b>March 28, 2019</b>                  | <b>March 29, 2018</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                       |  |                       |
| Net income   | \$ 28,201                              | \$ 26,872             |
| Depreciation and amortization                                      | 12,747                                 | 11,231                |
| (Gain) loss on disposition of assets, net                          | (130)                                  | 414                   |
| Deferred income tax expense  | 471                                    | 3,516                 |
| Stock-based compensation expense                                   | 2,037                                  | 2,180                 |
| <b>Change in assets and liabilities, net of business acquired:</b> |  |                       |
| Accounts receivable, net   | 7,763                                  | 2,048                 |
| Inventories  | (4,547)                                | (393)                 |
| Prepaid expenses and other current assets                          | (884)                                  | (2,518)               |
| Accounts payable   | (15,080)                               | (2,619)               |
| Accrued expenses   | 8,270                                  | (7,860)               |
| Income taxes payable   | 1,839                                  | (2,130)               |
| Other long-term assets and liabilities                             | 835                                    | 999                   |
| Other, net   | 1,295                                  | 1,325                 |
| <br>Net cash provided by operating activities                      | <br>42,817                             | <br>33,065            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                       |  |                       |
| Purchases of property, plant and equipment                         | (12,080)                               | (9,060)               |
| Acquisition of Squirrel Brand L.P.                                 |  | (21,727)              |
| Other  | 232                                    | (66)                  |
| <br>Net cash used in investing activities                          | <br>(11,848)                           | <br>(30,853)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                       |  |                       |
| Net short-term borrowings  | 3,821                                  | 27,123                |
| Principal payments on long-term debt                               | (5,396)                                | (3,880)               |
| (Decrease) increase in bank overdraft                              | (340)                                  | 2,588                 |
| Dividends paid   | (29,074)                               | (28,370)              |
| Issuance of Common Stock under equity award plans                  |  | 16                    |
| Taxes paid related to net share settlement of equity awards        | (339)                                  | (631)                 |
| <br>Net cash used in financing activities                          | <br>(31,328)                           | <br>(3,154)           |
| <br><b>NET DECREASE IN CASH</b>                                    | <br><b>(359)</b>                       | <br><b>(942)</b>      |
| Cash, beginning of period  | 1,449                                  | 1,955                 |

|                     |    |       |    |       |
|---------------------|----|-------|----|-------|
| Cash, end of period | \$ | 1,090 | \$ | 1,013 |
|---------------------|----|-------|----|-------|

Supplemental disclosure of non-cash investing activities:

|   |    |  |    |        |
|---|----|--|----|--------|
| Acquisition of Squirrel Brand L.P. through note payable | \$ |  | \$ | 11,500 |
|---|----|--|----|--------|

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

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**JOHN B. SANFILIPPO & SON, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

(Dollars in thousands, except where noted and per share data)

**Note 1 Basis of Presentation and Description of Business**

As used herein, unless the context otherwise indicates, the terms we, us, our or Company collectively refer to John Sanfilippo & Son, Inc. and our wholly-owned subsidiary, JBSS Ventures, LLC. Our fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen-week quarters). Additional information on the comparability of the periods presented is as follows:

References herein to fiscal 2019 and fiscal 2018 are to the fiscal year ending June 27, 2019 and the fiscal year ended June 28, 2018, respectively.

References herein to the third quarter of fiscal 2019 and fiscal 2018 are to the quarters ended March 28, 2019 and March 29, 2018, respectively.

References herein to the first three quarters or first thirty-nine weeks of fiscal 2019 and fiscal 2018 are to the thirty-nine weeks ended March 28, 2019 and March 29, 2018, respectively.

We are one of the leading processors and distributors of peanuts, pecans, cashews, walnuts, almonds, and other nuts in the United States. These nuts are sold under a variety of private brands and under the *Fisher*, *Orchard Valley Harvest*, *Squirrel Brand*, *Southern Style Nuts*, and *Sunshine Country* brand names. We also market and distribute, and in most cases, manufacture or process, a diverse product line of food and snack products, including peanut butter, almond butter, cashew butter, candy and confections, snacks and trail mixes, snack bites, sunflower kernels, dried fruit, corn snacks, sesame sticks and other sesame snack products under private brands and brand names. Our products are sold through three primary distribution channels to significant buyers of nuts, including food retailers in the consumer channel, commercial ingredient users and contract packaging customers.

The accompanying unaudited financial statements fairly present the consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of stockholders' equity and consolidated statements of cash flows, and reflect all adjustments, consisting only of normal recurring adjustments which are necessary for the fair statement of the results of the interim periods. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses.

The interim results of operations are not necessarily indicative of the results to be expected for a full year. The balance sheet data as of June 28, 2018 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). Accordingly, these unaudited financial statements and related notes should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2018 Annual Report on Form 10-K for the fiscal year ended June 28, 2018.

**Note 2 Revenue Recognition**

On June 29, 2018 we adopted ASU No. 2014-09, *Revenue from Contracts with Customers* ( *Topic 606* ) using the full retrospective method. See Note 13 *Recent Accounting Pronouncements* for additional information. For each customer contract a five-step process is now followed in which we identify the contract, identify performance obligations, determine the transaction price, allocate the contract transaction price to the performance obligations, and recognize the revenue when (or as) the performance obligation is transferred to the customer. As a result of adopting Topic 606 we have updated our accounting policy for revenue recognition as follows:

*Nature of Products*

We manufacture and sell the following:

branded products under our own proprietary brands to retailers on a national basis;

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 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.

#### *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 performance obligations are primarily for the delivery of raw and processed recipe and snack nuts, nut butters and trail mixes.

Our customer contracts do not include more than one performance obligation. If a contract were to contain more than one performance obligation, we are required to 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.

Revenue recognition is generally completed at a point in time when product control is transferred to the customer. For approximately 99% of our revenues, control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms, as the customer can then direct the use and obtain substantially all of the remaining benefits from the asset at that point in time. Therefore, for 99% of our revenues, the timing of revenue recognition requires minimal judgment and does not change compared to previous revenue recognition guidance. However, certain transactions within our contract packaging sales channel include contracts to develop, manufacture and deliver customized or proprietary products, which have no alternative use for the Company in the event the customer cancels the contract. In addition, for certain of these transactions the Company has the right to payment for performance completed to date. As a result, the revenue for products that are considered assets with no alternative use is now recognized over time. The value of these assets with no alternative use at period-end (an output method) is used as the basis to recognize revenue, which faithfully depicts our performance towards complete satisfaction of the performance obligation. This generally results in revenue recognition approximately one month earlier compared to previous revenue recognition guidance. The amount of contract revenue recognized over time is generally immaterial to total revenue recognized for any given period.

The performance obligations in our contracts are satisfied within one year, and typically much less. As such, we have not disclosed the transaction price allocated to remaining performance obligations for any periods presented.

#### *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. On a limited basis some payment terms may be extended, however, no payment terms beyond six months are granted at contract inception. The average customer payment is received within approximately 35 days of the invoice date. 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 six months or less.

#### *Shipping*

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in selling expense.

*Variable Consideration*

Some of our products are sold through specific incentive programs consisting of promotional allowances, volume and customer rebates, in-store display incentives and marketing allowances, among others, to consumer and some commercial ingredient customers. The ultimate cost of these programs is dependent on certain factors such as actual purchase volumes or customer activities and is dependent on significant management estimate and judgment. The Company accounts for these programs as variable consideration and recognizes a reduction in revenue (and a corresponding reduction in the transaction price) in the same period as the underlying program based upon the terms of the specific arrangements.

Trade promotions, consisting primarily of customer pricing allowances, merchandising funds and consumer coupons, are also offered through various programs to customers and consumers. A provision for estimated trade promotions is recorded as a reduction of revenue (and a reduction in the transaction price) in the same period when the sale is recognized. Revenues are also recorded net of expected customer deductions which are provided for based upon past experiences. Evaluating these estimates requires management judgment.

We generally use the most likely amount method to determine the variable consideration. We believe there will not be significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. The Company reviews and updates its estimates and related accruals of variable consideration and trade promotions at least quarterly based on the terms of the agreements and historical experience. Any uncertainties in the ultimate resolution of variable consideration due to factors outside of the Company's influence are typically resolved within a short timeframe, therefore, no additional constraint on the variable consideration is required.

#### *Product Returns*

While customers generally have the right to return defective or non-conforming products, past experience has demonstrated that product returns have generally been immaterial. Customer remedies may include either a cash refund or an exchange of the returned product. As a result, the right of return and related refund liability for non-conforming or defective goods is estimated and recorded as a reduction in revenue, if necessary.

#### *Contract Balances*

Contract assets or liabilities result from transactions with revenue recorded over time. If the measure of remaining rights exceeds the measure of the remaining performance obligations, the Company records a contract asset. Conversely, if the measure of the remaining performance obligations exceeds the measure of the remaining rights, the Company records a contract liability. Contract asset balances at March 28, 2019, June 28, 2018 and March 29, 2018 were \$358, \$336, and \$165, respectively, and are recorded in the caption "Prepaid expenses and other current assets" on the Consolidated Balance Sheets. The Company generally does not have material deferred revenue or contract liability balances arising from transactions with customers.

#### *Contract Costs*

The Company does not incur significant fulfillment costs requiring capitalization.

#### *Disaggregation of Revenue*

Revenue disaggregated by sales channel is as follows:

| <b>Distribution Channel</b> | <b>For the Quarter Ended</b> |                       | <b>For the Thirty-Nine Weeks Ended</b> |                       |
|-----------------------------|------------------------------|-----------------------|--|-----------------------|
|                             | <b>March 28, 2019</b>        | <b>March 29, 2018</b> | <b>March 28, 2019</b>                  | <b>March 29, 2018</b> |
| Consumer                    | \$ 142,011                   | \$ 134,994            | \$ 477,381                             | \$ 452,495            |
| Commercial Ingredients      | 32,219                       | 38,943                | 100,427                                | 110,930               |
| Contract Packaging          | 27,604                       | 28,849                | 81,631                                 | 113,830               |
| Total                       | \$ 201,834                   | \$ 202,786            | \$ 659,439                             | \$ 677,255            |

*Impact of Adoption*

The Company adopted Topic 606 using the full retrospective basis on June 29, 2018. The prior period comparative information has been recast to reflect the requirements of Topic 606. The impact of Topic 606 on the Consolidated Statement of Comprehensive Income for the quarter and thirty-nine weeks ended March 29, 2018 were as follows:

|                            | <b>Quarter-Ended<br/>March 29, 2018 as<br/>previously<br/>reported</b> |         |  | <b>Impact of<br/>Adoption</b> | <b>As Adjusted</b> |
|----------------------------|--|---------|--|-------------------------------|--------------------|
| Net sales                  | \$   | 203,181 |  | \$ (395)                      | \$ 202,786         |
| Gross profit               |  | 33,186  |  | (79)                          | 33,107             |
| Income from operations     |  | 14,103  |  | (79)                          | 14,024             |
| Net income                 | \$   | 8,631   |  | \$ (79)                       | \$ 8,552           |
| Earnings per share-basic   | \$   | 0.76    |  | \$ (0.01)                     | \$ 0.75            |
| Earnings per share-diluted | \$   | 0.75    |  | \$                            | \$ 0.75            |

|                            | <b>Thirty-Nine<br/>Weeks ended<br/>March 29, 2018 as<br/>previously<br/>reported</b> |         |  | <b>Impact of<br/>Adoption</b> | <b>As Adjusted</b> |
|----------------------------|--|---------|--|-------------------------------|--------------------|
| Net sales                  | \$   | 677,090 |  | \$ 165                        | \$ 677,255         |
| Gross profit               |  | 105,906 |  | 53                            | 105,959            |
| Income from operations     |  | 45,688  |  | 53                            | 45,741             |
| Net income                 | \$   | 26,819  |  | \$ 53                         | \$ 26,872          |
| Earnings per share-basic   | \$   | 2.36    |  | \$                            | \$ 2.36            |
| Earnings per share-diluted | \$   | 2.34    |  | \$ 0.01                       | \$ 2.35            |

The impact of Topic 606 on the comparative Consolidated Balance Sheet and Consolidated Statement of Cash Flows was not material.

### Note 3 Inventories

Inventories consist of the following:

|                                    | <b>March 28,<br/>2019</b> | <b>June 28,<br/>2018</b> | <b>March 29,<br/>2018</b> |
|------------------------------------|---------------------------|--------------------------|---------------------------|
| Raw material and supplies          | \$ 84,270                 | \$ 73,209                | \$ 103,332                |
| Work-in-process and finished goods | 94,639                    | 101,153                  | 81,438                    |
| <b>Total</b>                       | <b>\$ 178,909</b>         | <b>\$ 174,362</b>        | <b>\$ 184,770</b>         |

**Note 4 Goodwill and Intangible Assets**

Identifiable intangible assets that are subject to amortization consist of the following:

|                                | <b>March 28,<br/>2019</b> | <b>June 28,<br/>2018</b> | <b>March 29,<br/>2018</b> |
|--------------------------------|---------------------------|--------------------------|---------------------------|
| Customer relationships         | \$ 21,100                 | \$ 21,100                | \$ 21,100                 |
| Brand names                    | 16,990                    | 16,990                   | 16,990                    |
| Non-compete agreement          | 270                       | 270                      | 270                       |
|                                | 38,360                    | 38,360                   | 38,360                    |
| Less accumulated amortization: |                           |                          |                           |
| Customer relationships         | (13,980)                  | (12,182)                 | (11,523)                  |
| Brand names                    | (9,010)                   | (8,492)                  | (8,320)                   |
| Non-compete agreement          | (72)                      | (32)                     | (18)                      |
|                                | (23,062)                  | (20,706)                 | (19,861)                  |
| Net intangible assets          | \$ 15,298                 | \$ 17,654                | \$ 18,499                 |

Customer relationships are being amortized on an accelerated basis. The brand names consist of the *Squirrel Brand* and *Southern Style Nuts* brand names.

Total amortization expense related to intangible assets, which is recorded within Administrative expense, was \$672 and \$2,356 for the quarter and thirty-nine weeks ended March 28, 2019, respectively. Amortization expense for the remainder of fiscal 2019, based on our purchase price allocation, is expected to be approximately \$672 and expected amortization expense the next five fiscal years is as follows:

| <b>Fiscal year ending</b> |          |
|---------------------------|----------|
| June 25, 2020             | \$ 2,501 |
| June 24, 2021             | 2,165    |
| June 30, 2022             | 1,896    |
| June 29, 2023             | 1,657    |
| June 27, 2024             | 1,414    |

Our goodwill of \$9,650 relates entirely to the Squirrel Brand acquisition (the Acquisition) completed in the second quarter of fiscal 2018. There was no change in the carrying amount of goodwill during the thirty-nine weeks ended March 28, 2019.

**Note 5 Credit Facility**

On February 7, 2008, we entered into a Credit Agreement with a bank group providing a \$117,500 revolving loan commitment and letter of credit subfacility (the Credit Facility). The Credit Facility is secured by substantially all our assets other than real property and fixtures.

At March 28, 2019, we had \$79,351 of available credit under the Credit Facility which reflects borrowings of \$35,099 and reduced availability as a result of \$3,050 in outstanding letters of credit. As of March 28, 2019, we were in

compliance with all financial covenants under the Credit Facility and Mortgage Facility.

**Note 6 Earnings Per Common Share**

The following table presents the reconciliation of the weighted average shares outstanding used in computing basic and diluted earnings per share:

|   | For the Quarter Ended |                | For the Thirty-Nine Weeks Ended |                |
|---|-----------------------|----------------|---------------------------------|----------------|
|   | March 28, 2019        | March 29, 2018 | March 28, 2019                  | March 29, 2018 |
| Weighted average number of shares outstanding basic   | 11,444,560            | 11,399,492     | 11,425,378                      | 11,375,437     |
| Effect of dilutive securities:                        |                       |                |                                 |                |
| Stock options and restricted stock units              | 64,333                | 54,056         | 68,040                          | 65,234         |
| Weighted average number of shares outstanding diluted | 11,508,893            | 11,453,548     | 11,493,418                      | 11,440,671     |

There were no anti-dilutive awards excluded from the computation of diluted earnings per share for any of the above periods presented.

**Note 7 Stock-Based Compensation Plans**

The following is a summary of restricted stock unit ( RSU ) activity for the first thirty-nine weeks of fiscal 2019:

| Restricted Stock Units        | Shares   | Weighted Average Grant Date Fair Value |
|-------------------------------|----------|--|
| Outstanding at June 28, 2018  | 189,068  | \$ 46.35                               |
| Activity:                     |          |  |
| Granted                       | 56,700   | 57.22                                  |
| Vested <sup>(a)</sup>         | (49,179) | 55.79                                  |
| Forfeited                     | (6,925)  | 57.34                                  |
| Outstanding at March 28, 2019 | 189,664  | \$ 46.75                               |

<sup>(a)</sup> The number of RSUs vested includes shares that were withheld on behalf of employees to satisfy the statutory tax withholding requirements.

At March 28, 2019, there are 55,628 RSUs outstanding that are vested but deferred.

The following table summarizes compensation expense charged to earnings for all equity compensation plans for the periods presented:



|                                  | <b>For the Quarter Ended</b> |                  | <b>For the Thirty-Nine Weeks Ended</b> |                  |
|----------------------------------|------------------------------|------------------|--|------------------|
|                                  | <b>March 28,</b>             | <b>March 29,</b> | <b>March 28,</b>                       | <b>March 29,</b> |
|                                  | <b>2019</b>                  | <b>2018</b>      | <b>2019</b>                            | <b>2018</b>      |
| Stock-based compensation expense | \$ 521                       | \$ 751           | \$ 2,037                               | \$ 2,180         |

As of March 28, 2019, there was \$4,318 of total unrecognized compensation expense related to non-vested RSUs granted under our stock-based compensation plans. We expect to recognize that cost over a weighted average period of 1.7 years.

Stock option activity was insignificant during the first thirty-nine weeks of fiscal 2019.

**Note 8 Retirement Plan**

The Supplemental Employee Retirement Plan is an unfunded, non-qualified deferred compensation plan that will provide eligible participants with monthly benefits upon retirement, disability or death, subject to certain conditions. The monthly benefit is based upon each participant's earnings and his or her number of years of service. The components of net periodic benefit cost are as follows:

|                                    | For the Quarter Ended |                | For the Thirty-Nine Weeks Ended |                |
|------------------------------------|-----------------------|----------------|---------------------------------|----------------|
|                                    | March 28, 2019        | March 29, 2018 | March 28, 2019                  | March 29, 2018 |
| Service cost                       | \$ 152                | \$ 152         | \$ 457                          | \$ 456         |
| Interest cost                      | 224                   | 213            | 671                             | 638            |
| Amortization of prior service cost | 239                   | 239            | 718                             | 718            |
| Amortization of loss               | 24                    | 40             | 71                              | 121            |
| Net periodic benefit cost          | \$ 639                | \$ 644         | \$ 1,917                        | \$ 1,933       |

The components of net periodic benefit cost other than the service cost component are included in the line item "Other expense" in the Consolidated Statements of Comprehensive Income.

**Note 9 Accumulated Other Comprehensive Loss**

The table below sets forth the changes to accumulated other comprehensive loss (AOCL) for the thirty-nine weeks ended March 28, 2019 and March 29, 2018. These changes are all related to our defined benefit pension plan.

| Changes to AOCL <sup>(a)</sup>                                 | For the Thirty-Nine Weeks Ended |                |
|--|---------------------------------|----------------|
|  | March 28, 2019                  | March 29, 2018 |
| Balance at beginning of period                                 | \$ (3,181)                      | \$ (4,404)     |
| Other comprehensive income before reclassifications            |                                 |                |
| Amounts reclassified from accumulated other comprehensive loss | 789                             | 839            |
| Tax effect   | (198)                           | (288)          |
| Net current-period other comprehensive income                  | 591                             | 551            |
| Balance at end of period                                       | \$ (2,590)                      | \$ (3,853)     |

(a) Amounts in parenthesis indicate debits/expense.

The reclassifications out of AOCL for the quarter and thirty-nine weeks ended March 28, 2019 and March 29, 2018 were as follows:

| Reclassifications from AOCL to earnings <sup>(b)</sup> | For the Quarter Ended |                | For the Thirty-Nine Weeks Ended |                | Affected line item in the Consolidated Statements of Comprehensive Income |
|--|-----------------------|----------------|---------------------------------|----------------|---|
|  | March 28, 2019        | March 29, 2018 | March 28, 2019                  | March 29, 2018 |   |
| Amortization of defined benefit pension items:         |                       |                |                                 |                |   |
| Unrecognized prior service cost                        | \$ (239)              | \$ (239)       | \$ (718)                        | \$ (718)       | Other expense   |
| Unrecognized net loss                                  | (24)                  | (40)           | (71)                            | (121)          | Other expense   |
| Total before tax                                       | (263)                 | (279)          | (789)                           | (839)          |   |
| Tax effect   | 66                    | 69             | 198                             | 288            | Income tax expense  |
| Amortization of defined pension items, net of tax      | \$ (197)              | \$ (210)       | \$ (591)                        | \$ (551)       |   |

<sup>(b)</sup> Amounts in parenthesis indicate debits to expense. See Note 8 Retirement Plan above for additional details.  
**Note 10 Commitments and Contingent Liabilities**

We are currently a party to various legal proceedings in the ordinary course of business. While management presently believes that the ultimate outcomes of these proceedings, individually and in the aggregate, will not materially affect our Company's financial position, results of operations or cash flows, legal proceedings are subject to inherent uncertainties, and unfavorable outcomes could occur. Unfavorable outcomes could include substantial monetary damages in excess of any appropriate accruals, which management has established. Were such unfavorable final outcomes to occur, there exists the possibility of a material adverse effect on our financial position, results of operations and cash flows.

During fiscal 2017 we were subject to a class-action complaint for an employment related matter. In early fiscal 2018 we agreed to a \$1,200 settlement for which we were fully reserved at June 29, 2017. In the first quarter of fiscal 2019 the settlement was paid.

#### **Note 11 Fair Value of Financial Instruments**

Authoritative guidance issued by the Financial Accounting Standards Board ( FASB ) defines fair value as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The guidance establishes a fair value hierarchy that prioritizes observable and unobservable

inputs used to measure fair value into three broad levels:

- Level 1 Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
  - Level 2 Observable inputs other than quoted prices in active markets. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
  - Level 3 Unobservable inputs for which there is little or no market data available.
- The carrying values of cash, trade accounts receivable and accounts payable approximate their fair values at each balance sheet date because of the short-term maturities and nature of these balances.

The carrying value of our revolving credit facility borrowings approximates fair value at each balance sheet date because interest rates on this instrument approximate current market rates (Level 2 criteria), the short-term maturity and nature of this balance. In addition, there has been no significant change in our inherent credit risk.

The following table summarizes the carrying value and fair value estimate of our current and long-term debt, excluding unamortized debt issuance costs:

|                                   | March 28,<br>2019 | June 28,<br>2018 | March 29,<br>2018 |
|-----------------------------------|-------------------|------------------|-------------------|
| Carrying value of long-term debt: | \$ 29,253         | \$ 34,649        | \$ 36,428         |
| Fair value of long-term debt:     | 28,872            | 33,482           | 35,409            |

The estimated fair value of our long-term debt was determined using a market approach based upon Level 2 observable inputs, which estimates fair value based on interest rates currently offered on loans with similar terms to borrowers of similar credit quality or broker quotes. In addition, there have been no significant changes in the underlying assets securing our long-term debt.

#### Note 12 Related Party Transaction

In connection with the Acquisition in the second quarter of fiscal 2018, we incurred \$11,500 of unsecured debt to the principal owner and seller of the Squirrel Brand business, who was subsequently appointed as an executive officer of the Company and is considered a related party. The interest rate on the Promissory Note is 5.5% per annum and the outstanding balance at March 28, 2019 was \$6,389. Interest paid on the Promissory Note for the quarter and thirty-nine weeks ended March 28, 2019 was \$96 and \$329, respectively.

#### Note 13 Recent Accounting Pronouncements

The following recent accounting pronouncements have been adopted in the current fiscal year:

In May 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers (Topic 606)* and created a new ASC Topic 606, *Revenue from Contracts with Customers*, and added ASC Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*. The guidance in this Update supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the industry topics of the codification. Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On June 29, 2018 we adopted Topic 606 using the full retrospective method. Under the full retrospective method, all periods presented are now presented under Topic 606. A cumulative effect of initially applying the new revenue standard for the earliest balance sheet period presented has been accounted for and was immaterial. See Note 2 *Revenue Recognition* above for additional details.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This Update addresses eight specific cash flow issues with the objective of reducing the perceived diversity in practice. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments in this Update were applied using a retrospective transition method to each period presented. ASU No. 2016-15 was adopted in the first quarter of fiscal 2019 and did not have an impact on our Consolidated Statements of Cash Flows.

In May 2017, the FASB issued ASU No. 2017-09 *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in this Update provide guidance about which changes to terms or

conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 should be applied prospectively to an award modified on or after the adoption date. ASU No. 2017-09 was adopted in the first quarter of fiscal 2019 and did not have an impact on our Consolidated Financial Statements.

In August 2018, the Securities and Exchange Commission issued Release No. 33-10532 that amends and clarifies certain financial reporting requirements. The principal change to our financial reporting is the inclusion of the annual disclosure of changes in stockholders' equity in Rule 3-04 of Regulation S-X to interim periods. We adopted the provisions of this new rule beginning with our fiscal 2019 financial reporting. We now include our Consolidated Statements of Stockholders' Equity with each quarterly filing on Form 10-Q and have removed the dividends per share disclosure from the Consolidated Statements of Comprehensive Income.

The following recent accounting pronouncements have not yet been adopted:

In August 2018, the FASB issued ASU No. 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, for all entities. The amendments in this Update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update will be effective for the Company in fiscal 2021. We do not expect this accounting Update to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14 *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in this Update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this Update remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments in this Update are effective for public business entities for fiscal years ending after December 15, 2020. Early adoption is permitted for all entities. An entity should apply the amendments in this Update on a retrospective basis to all periods presented. This Update will be effective for the Company in fiscal 2021. We do not expect this accounting Update to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. Certain disclosure requirements will be removed from Topic 820 with this Update to include: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. The amendments also clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. This Update will add the requirement to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. This Update will be effective for the Company in fiscal 2021. We do not expect this accounting Update to have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. The primary goal of this Update is to require the lessee to recognize all lease commitments, both operating and finance, by initially recording a lease asset and liability on the balance sheet at the lease commencement date. Additionally, enhanced qualitative and quantitative disclosures will be required. ASU No. 2016-02 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. This new guidance will be effective for the Company beginning in fiscal year 2020 and we do not expect to early adopt. Under ASU No. 2016-02 the guidance was to be adopted using a modified retrospective approach, with elective reliefs, with application of the new guidance for all periods presented. In July 2018, the FASB issued ASU No. 2018-11 *Leases (Topic 842): Targeted Improvements* which provides for another transition method by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings

in the period of adoption. The amendments in this Update also provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated



lease component, similar to the expedient provided for lessees. In July 2018, the FASB also issued ASU No. 2018-10 *Codification Improvements to Topic 842, Leases* which affects narrow aspects of the guidance issued in ASU No. 2016-02. In December 2018, the FASB issued ASU No. 2018-20 *Leases (Topic 842) Narrow Scope Improvements for Lessors* which provides specific guidance for lessors on the issues of sales taxes and other similar taxes collected from lessees, certain lessor costs, and recognition of variable payments for contracts with lease and non-lease components. In March 2019, the FASB issued ASU No. 2019-01 *Leases (Topic 842) Codification Improvements* which clarifies transition disclosure requirements for annual and interim periods after the date of adoption of ASU No. 2016-02. We are implementing processes and information technology tools to assist in our ongoing lease data analysis and updating our accounting policies and internal controls that would be impacted by the new guidance, to ensure readiness for adoption in the first quarter of fiscal 2020. Based on our current portfolio of leases, the Company expects the impact of these new standards to significantly increase total assets and total liabilities, and lead to increased financial statement disclosures.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and the Notes to Consolidated Financial Statements.

Our fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen-week quarters). Additional information on the comparability of the periods presented is as follows:

References herein to fiscal 2019 and fiscal 2018 are to the fiscal year ending June 27, 2019 and the fiscal year ended June 28, 2018, respectively.

References herein to the third quarter of fiscal 2019 and fiscal 2018 are to the quarters ended March 28, 2019 and March 29, 2018, respectively.

References herein to the first three quarters or first thirty-nine weeks of fiscal 2019 and fiscal 2018 are to the thirty-nine weeks ended March 28, 2019 and March 29, 2018, respectively.

As used herein, unless the context otherwise indicates, the terms "we", "us", "our" or "Company" collectively refer to John Sanfilippo & Son, Inc. and our wholly-owned subsidiary, JBSS Ventures, LLC. Our Company's Credit Facility and Mortgage Facility, as defined below, are sometimes collectively referred to as "our financing arrangements."

We are one of the leading processors and distributors of peanuts, pecans, cashews, walnuts, almonds and other nuts in the United States. These nuts are sold under a variety of private brands and under the *Fisher*, *Orchard Valley Harvest*, *Squirrel Brand*, *Southern Style Nuts*, and *Sunshine Country* brand names. We also market and distribute, and in most cases, manufacture or process, a diverse product line of food and snack products, including peanut butter, almond butter, cashew butter, candy and confections, snacks and trail mixes, snack bites, sunflower kernels, dried fruit, corn snacks, sesame sticks and other sesame snack products under private brands and brand names. We distribute our products in the consumer, commercial ingredients and contract packaging distribution channels.

The Company's long-term objective to drive profitable growth, as identified in our strategic plan (the "Strategic Plan"), includes growing *Fisher*, *Orchard Valley Harvest*, *Squirrel Brand* and *Southern Style Nuts* into leading nut brands by focusing on consumers demanding quality nuts in the snacking, recipe and produce categories, providing integrated nut solutions to grow non-branded business at existing key customers in each distribution channel and expanding our offerings into alternative distribution channels. We are executing on our Strategic Plan by growing our consumer distribution channel, which now accounts for almost 70% of our total annual company sales volume. This growth has been driven by an increase in sales of our branded products such as our *Orchard Valley Harvest* and *Fisher* snack nut and trail mix products to a variety of retailers as well as growth from private brand product sales. We have also made distribution gains for *Fisher* recipe nuts at several new grocery customers during the 2019 fiscal year. We are also focusing on growing *Squirrel Brand* and *Southern Style Nuts* brand awareness through expanded distribution and increased innovation and product offerings.

We face a number of challenges in the future which include, among others, deflation in commodity costs for all major tree nuts except almonds and intensified competition for market share from both private brand and name brand nut products. We also face changing industry trends resulting in retail consolidation and Internet price competition for nut and nut related products. We expect to maintain our recent level of promotional and advertising activity for our *Fisher*

and *Orchard Valley Harvest* brands. We continue to see significant domestic sales and volume growth in our *Orchard Valley Harvest* brand and intend to focus on this portion of our branded business as well as our *Squirrel Brand* and *Southern Style Nuts* brands. We will continue to face the ongoing challenges specific to our business, such as food safety and regulatory issues and the maintenance and growth of our customer base. See the information referenced in Part II, Item 1A Risk Factors of this report for additional information about our risks, challenges and uncertainties.

## QUARTERLY HIGHLIGHTS

Our net sales of \$201.8 million for the third quarter of fiscal 2019 decreased 0.5% from our net sales of \$202.8 million for the third quarter of fiscal 2018. Net sales for the first thirty-nine weeks of fiscal 2019 decreased by \$17.8 million, or 2.6%, to \$659.4 million compared to the first thirty-nine weeks of fiscal 2018.

Sales volume, measured as pounds sold to customers, increased 1.9 million pounds, or 3.0%, in the third quarter of fiscal 2019, compared to the third quarter of fiscal 2018. Sales volume for the first thirty-nine weeks of fiscal 2019 was relatively unchanged compared to the first thirty-nine weeks of fiscal 2018.

Gross profit increased by \$5.7 million, and our gross profit margin, as a percentage of net sales, increased to 19.2% for the third quarter of fiscal 2019 compared to 16.3% for the third quarter of fiscal 2018. Gross profit increased by \$8.7 million and our gross profit margin increased to 17.4% from 15.6% for the first thirty-nine weeks of fiscal 2019 compared to the first thirty-nine weeks of fiscal 2018.

Total operating expenses for the third quarter of fiscal 2019 increased by \$4.3 million, or 22.7%, compared to the third quarter of fiscal 2018. As a percentage of net sales, total operating expenses in the third quarter of fiscal 2019 increased to 11.6% from 9.4% for the third quarter of fiscal 2018. For the first thirty-nine weeks of fiscal 2019, total operating expenses increased by \$12.3 million, to 11.0% of net sales compared to 8.9% for the first thirty-nine of fiscal 2018.

The total value of inventories on hand at the end of the third quarter of fiscal 2019 decreased by \$5.9 million, or 3.2%, in comparison to the total value of inventories on hand at the end of the third quarter of fiscal 2018.

We have seen acquisition costs for walnuts decline in the 2018 crop year (which falls into our current 2019 fiscal year). We have also seen declining acquisition costs for pecans and cashews. We have completed procurement of inshell walnuts during the first half of fiscal 2019, and the final total payments due to our walnut growers were determined in the current quarter. The final prices paid, and remaining to be paid to the walnut growers, were based upon current market prices and other factors, such as crop size and export demand. A large majority of payments to walnut growers were completed in the third quarter of fiscal 2019. Remaining amounts to be paid to walnut growers as of March 28, 2019 are final and are not subject to revision. We increased our walnut grower liability by an immaterial amount during the third quarter of fiscal 2019, as the final payments to walnut growers were slightly more than the amounts estimated at the end of last quarter. This increase is insignificant compared to our total inshell walnut procurement costs for the year, and the adjustment to cost of sales was immaterial to our results of operations.

## RESULTS OF OPERATIONS

### *Net Sales*

Our net sales decreased 0.5% to \$201.8 million in the third quarter of fiscal 2019 compared to net sales of \$202.8 million for the third quarter of fiscal 2018. Sales volume, which is defined as pounds sold to customers, increased approximately 3.0% in the quarterly comparison. The decline in net sales was primarily due to a lower weighted average selling price per pound as a result of a shift in sales volume from higher priced tree nuts to lower priced peanuts. The decline in net sales from lower selling prices due to commodity deflation for certain tree nuts was largely offset by the increase in sales volume, which came primarily from increased sales of private brand peanuts and trail mixes in the consumer distribution channel.

For the first thirty-nine weeks of fiscal 2019 our net sales were \$659.4 million, a decrease of \$17.8 million, or 2.6%, compared to the same period of fiscal 2018. The decrease in net sales occurred primarily for the same reasons cited in the quarterly comparison. Sales volume was relatively unchanged in the year to date comparison.

The following table summarizes sales by product type as a percentage of total gross sales. The information is based upon gross sales, rather than net sales, because certain adjustments, such as promotional discounts, are not allocable to product type.

| Product Type         | For the Quarter Ended |                | For the Thirty-Nine Weeks Ended |                |
|----------------------|-----------------------|----------------|---------------------------------|----------------|
|                      | March 28, 2019        | March 29, 2018 | March 28, 2019                  | March 29, 2018 |
| Peanuts              | 19.6%                 | 17.3%          | 17.9%                           | 15.2%          |
| Pecans               | 8.5                   | 10.1           | 14.1                            | 15.2           |
| Cashews & Mixed Nuts | 23.9                  | 24.0           | 22.8                            | 25.0           |
| Walnuts              | 7.8                   | 9.0            | 9.6                             | 9.1            |
| Almonds              | 15.8                  | 17.5           | 13.7                            | 14.9           |
| Trail & Snack Mixes  | 18.4                  | 16.1           | 16.5                            | 15.0           |
| Other                | 6.0                   | 6.0            | 5.4                             | 5.6            |
| Total                | 100.0%                | 100.0%         | 100.0%                          | 100.0%         |

The following table shows a comparison of net sales by distribution channel (dollars in thousands):

| Distribution Channel    | For the Quarter Ended |                |          | Percent Change |
|-------------------------|-----------------------|----------------|----------|----------------|
|                         | March 28, 2019        | March 29, 2018 | Change   |                |
| Consumer <sup>(1)</sup> | \$ 142,011            | \$ 134,994     | \$ 7,017 | 5.2%           |
| Commercial Ingredients  | 32,219                | 38,943         | (6,724)  | (17.3)         |
| Contract Packaging      | 27,604                | 28,849         | (1,245)  | (4.3)          |
| Total                   | \$ 201,834            | \$ 202,786     | \$ (952) | (0.5)%         |

- (1) Sales of branded products were approximately 31% and 34% of total consumer sales during the third quarter of fiscal 2019 and fiscal 2018, respectively. *Fisher* branded products were approximately 63% and 65% of branded sales during the third quarter of fiscal 2019 and fiscal 2018, respectively, with branded produce and *Squirrel Brand* products accounting for most of the remaining branded product sales.

The following table shows a comparison of net sales by distribution channel (dollars in thousands):

| Distribution Channel    | For the Thirty-Nine Weeks Ended |                |             | Percent Change |
|-------------------------|---------------------------------|----------------|-------------|----------------|
|                         | March 28, 2019                  | March 29, 2018 | Change      |                |
| Consumer <sup>(1)</sup> | \$ 477,381                      | \$ 452,495     | \$ 24,886   | 5.5%           |
| Commercial Ingredients  | 100,427                         | 110,930        | (10,503)    | (9.5)          |
| Contract Packaging      | 81,631                          | 113,830        | (32,199)    | (28.3)         |
| Total                   | \$ 659,439                      | \$ 677,255     | \$ (17,816) | (2.6)%         |

- (1) Sales of branded products were approximately 39% and 40% of total consumer sales during the first thirty-nine weeks of fiscal 2019 and fiscal 2018, respectively. *Fisher* branded products were approximately 72% and 78% of branded sales during the first thirty-nine weeks of fiscal 2019 and fiscal 2018, respectively, with branded produce and *Squirrel Brand* products accounting for most of the remaining branded product sales.

Net sales in the consumer distribution channel increased by 5.2% in dollars and 8.2% in sales volume in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. The sales volume increase was driven by increased sales of snack nuts and trail mixes with new and existing private brand customers. Sales volume for *Fisher* snack nuts decreased 17.1% due to lower promotional activity for inshell peanuts, which was offset in part by distribution gains for the *Oven Roasted Never Fried* product line. An 8.5% increase in sales volume of *Orchard Valley Harvest* produce products was driven by distribution gains for the salad toppers product line and distribution gains with new customers. Sales volume for *Fisher* recipe nuts decreased 12.2% mainly from competitive pricing pressure from private label products at an existing customer and the Easter holiday occurring later in fiscal 2019 compared to fiscal 2018. A 19.6% decrease in sales volume for *Southern Style Nuts* was due to a temporary reduction in sales to an existing customer in Mexico.

In the first thirty-nine weeks of fiscal 2019, net sales in the consumer distribution channel increased by 5.5% in dollars and 9.5% in sales volume, compared to the same period of fiscal 2018. The sales volume increase was driven by increased sales of private brand peanuts and trail mixes and *Orchard Valley Harvest* products. Accounting for 11.4% of the sales volume increase was the additional sales volume related to *Southern Style Nuts* snack mix products resulting from the Acquisition which occurred late in our Fiscal 2018 second quarter. Beginning in December 2017, *Squirrel Brand* sales volume is included in the consumer and commercial ingredients distribution channels. *Squirrel Brand* sales volume for fiscal 2018 was included in the contract packaging distribution channel through November 2017, because *Squirrel Brand* was a contract packaging customer until the Acquisition.

Net sales in the commercial ingredients distribution channel decreased by 17.3% in dollars and 6.5% in sales volume in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. In the first thirty-nine weeks of fiscal 2019, net sales in the commercial ingredients distribution channel decreased by 9.5% in dollars and 9.3% in sales volume compared to the same period of fiscal 2018. The sales volume decrease, for both the quarterly and thirty-nine week period, was primarily due to lower sales of bulk products to other food manufacturers.

Net sales in the contract packaging distribution channel decreased by 4.3% in dollars and 6.3% in sales volume in the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. The decline in sales volume mainly came from the discontinuance of a product line and a reduction in unit ounce weights for tree nut items implemented by an existing contract packaging customer. In the first thirty-nine weeks of fiscal 2019, net sales in the contract packaging

distribution channel decreased by 28.3% in dollars and 24.4% in sales volume compared to the first thirty-nine weeks of fiscal 2018. The decline in sales volume occurred for the same reasons cited in the quarterly comparison, as well as the loss of some bulk business with an existing contract packaging customer. The sales volume decrease was also due to our acquisition of the Squirrel Brand business at the end of November 2017, as discussed above.



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### ***Gross Profit***

Gross profit increased by \$5.7 million, or 17.2%, to \$38.8 million for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. Our gross profit margin, as a percentage of net sales, increased to 19.2% for the third quarter of fiscal 2019 compared to 16.3% for the third quarter of fiscal 2018. The increases in gross profit and gross profit margin were mainly due to lower commodity acquisition costs for walnuts, peanuts, cashews and pecans. The 3.0% increase in sales volume also contributed to the increase in gross profit.

Gross profit increased by \$8.7 million, or 8.2%, to \$114.7 million for the first thirty-nine weeks of fiscal 2019 compared to the first thirty-nine weeks of fiscal 2018. Our gross profit margin increased to 17.4% for the first thirty-nine weeks of fiscal 2019 compared to 15.6% for the first thirty-nine weeks of fiscal 2018. The increases in gross profit and gross profit margin in the year to date comparison were mainly due to lower commodity acquisition costs for peanuts, walnuts, pecans and cashews.

### ***Operating Expenses***

Total operating expenses for the third quarter of fiscal 2019 increased by \$4.3 million, or 22.7%, to \$23.4 million. Operating expenses for the third quarter of fiscal 2019 increased to 11.6% of net sales from 9.4% of net sales for the third quarter of fiscal 2018.

Selling expenses for the third quarter of fiscal 2019 were \$13.8 million, an increase of \$2.2 million, or 18.8%, from the third quarter of fiscal 2018. The increase was driven primarily by a \$1.2 million increase in incentive and regular compensation expense, a \$0.4 million increase in advertising expense to support our new *Oven Roasted Never Fried Fisher* snack line and a \$0.3 increase in freight expense due to increased sales volume in the consumer distribution channel.

Administrative expenses for the third quarter of fiscal 2019 were \$9.6 million compared to \$7.5 million for the third quarter of fiscal 2018. A \$1.1 million increase in incentive compensation expense, a \$0.8 million increase in legal expense and a \$0.6 million increase in consulting fees were partially offset by a \$0.2 million decrease in amortization expense.

Total operating expenses for the first thirty-nine weeks of fiscal 2019 increased by \$12.3 million, or 20.5%, to \$72.6 million. Operating expenses increased to 11.0% of net sales for the first three quarters of fiscal 2019 compared to 8.9% of net sales for the three quarters of fiscal 2018.

Selling expenses for the first thirty-nine weeks of fiscal 2019 were \$46.1 million, an increase of \$7.7 million, or 19.9%, from the amount recorded for the first thirty-nine weeks of fiscal 2018. The increase was driven by a \$3.3 million increase in compensation related expenses, primarily incentive compensation expense, a \$2.1 million increase in freight expense due to an increase in delivered sales pounds coupled with rising costs in the transportation industry in the first two quarters of fiscal 2019 and a \$1.5 million increase in advertising expense to support our new *Oven Roasted Never Fried Fisher* snack line.

Administrative expenses for the first thirty-nine weeks of fiscal 2019 were \$26.5 million, an increase of \$4.7 million, or 21.5%, compared to the same period of fiscal 2018. The increase was driven by a \$3.1 million increase in compensation related expenses, primarily incentive compensation expense, a \$1.2 million increase in amortization expense that is associated with the Acquisition, a \$0.8 million increase in consulting expense and a \$0.6 million increase in legal expense. Partially offsetting these increases was a \$0.6 million decrease in personnel expense and a \$0.5 million decrease in the loss on asset disposals.

### ***Income from Operations***

Due to the factors discussed above, income from operations was \$15.4 million, or 7.6% of net sales, for the third quarter of fiscal 2019 compared to \$14.0 million, or 6.9% of net sales, for the third quarter of fiscal 2018.

Due to the factors discussed above, income from operations was \$42.1 million, or 6.4% of net sales, for the first thirty-nine weeks of fiscal 2019 compared to \$45.7 million, or 6.8% of net sales, for the first thirty-nine weeks of fiscal 2018.

### ***Interest Expense***

Interest expense was \$0.8 million for the third quarter of fiscal 2019 compared to \$1.0 million in the third quarter of fiscal 2018. Interest expense for the first three quarters of fiscal 2019 was \$2.5 million compared to \$2.6 million for the first three quarters of fiscal 2018. The decrease in interest expense for both the quarterly and thirty-nine week comparison was a result of lower average debt levels.

### ***Rental and Miscellaneous Expense, Net***

Net rental and miscellaneous expense was \$0.3 million for the third quarter of both fiscal 2019 and fiscal 2018. Net rental and miscellaneous expense was \$0.9 million for the first thirty-nine weeks of fiscal 2019 compared to \$1.2 million for the first thirty-nine weeks of fiscal 2018.

### ***Other Expense***

Other expense consists of pension related expenses other than the service cost component and was \$0.5 million for the third quarter of both fiscal 2019 and fiscal 2018. Other expense was \$1.5 million for the first thirty-nine weeks of both fiscal 2019 and 2018.

### ***Income Tax Expense***

Income tax expense was \$3.5 million, or 25.2% of income before income taxes (the Effective Tax Rate ), for the third quarter of fiscal 2019 compared to \$3.6 million, or 29.9% of income before income taxes, for the third quarter of fiscal 2018. For the first thirty-nine weeks of fiscal 2019, income tax expense was \$9.1 million, or 24.4% of income before income taxes, compared to \$13.6 million, or 33.6% of income before income taxes, for the comparable period last year. The decrease in the Effective Tax Rate for the thirty-nine week comparison was due to a \$2.4 million non-cash charge to income tax expense recorded in the second quarter of fiscal 2018 to reduce our deferred tax assets due to the Tax Cuts and Jobs Act of 2017, which lowered the corporate income tax rate to 21%, effective January 1, 2018.

### ***Net Income***

Net income was \$10.3 million, or \$0.90 per common share basic and diluted, for the third quarter of fiscal 2019, compared to \$8.6 million, or \$0.75 per common share basic and diluted, for the third quarter of fiscal 2018.

Net income was \$28.2 million, or \$2.47 per common share basic and \$2.45 per common share diluted, for the first thirty-nine weeks of fiscal 2019, compared to net income of \$26.9 million, or \$2.36 per common share basic and \$2.35 per common share diluted, for the first thirty-nine weeks of fiscal 2018.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***General***

The primary uses of cash are to fund our current operations, fulfill contractual obligations, pursue our Strategic Plan through growing our branded and private label nut programs and repay indebtedness. Also, various uncertainties could result in additional uses of cash. The primary sources of cash are results of operations and availability under our Credit Agreement, dated February 7, 2008 and subsequently amended most recently in November 2017 (as amended, the Credit Facility ), that provides a revolving loan commitment and letter of credit subfacility. We anticipate that expected net cash flow generated from operations and amounts available pursuant to the Credit Facility will be sufficient to fund our operations for the next twelve months. Our available credit under our Credit Facility has allowed

us to devote more funds to promote our products (especially our *Fisher* and *Orchard Valley Harvest* brands), consummate strategic business acquisitions such as the 2018 acquisition of the Squirrel Brand business, reinvest in the Company through capital expenditures, develop new products, pay cash dividends the past seven years and explore other growth strategies outlined in our Strategic Plan.

Cash flows from operating activities have historically been driven by net income but are also significantly influenced by inventory requirements, which can change based upon fluctuations in both quantities and market prices of the various nuts and nut products we buy and sell. Current market trends in nut prices and crop estimates also impact nut procurement.

The following table sets forth certain cash flow information for the first three quarters of fiscal 2019 and 2018, respectively (dollars in thousands):

|                      | <b>For the Thirty-Nine Weeks<br/>Ended</b> |                           |                      |
|----------------------|--|---------------------------|----------------------|
|                      | <b>March 28,<br/>2019</b>                  | <b>March 29,<br/>2018</b> | <b>\$<br/>Change</b> |
| Operating activities | \$ 42,817                                  | \$ 33,065                 | \$ 9,752             |
| Investing activities | (11,848)                                   | (30,853)                  | 19,005               |
| Financing activities | (31,328)                                   | (3,154)                   | (28,174)             |
| Net decrease in cash | \$ (359)                                   | \$ (942)                  | \$ 583               |

**Operating Activities** Net cash provided by operating activities was \$42.8 million for the first thirty-nine weeks of fiscal 2019 compared to \$33.1 million for the comparative period of fiscal 2018. The net increase in operating cash flow was due primarily to a reduced use of working capital for inventory compared to first thirty-nine weeks of fiscal 2018.

Total inventories were \$178.9 million at March 28, 2019, an increase of \$4.5 million, or 2.6%, from the inventory balance at June 28, 2018, and a decrease of \$5.9 million, or 3.2%, from the inventory balance at March 29, 2018. The decrease in inventories at March 28, 2019 compared to March 29, 2018 was primarily due to lower acquisition costs for pecans, cashews and walnuts.

Raw nut and dried fruit input stocks, some of which are classified as work in process, increased by 8.2 million pounds, or 13.1%, at March 28, 2019 compared to March 29, 2018. The weighted average cost per pound of raw nut input stocks on hand at the end of the third quarter of fiscal 2019 decreased 24.7% compared to the end of the third quarter of fiscal 2018 primarily due to lower acquisition costs for pecans, cashews and walnuts.

**Investing Activities** Cash used in investing activities was \$11.8 million during the first thirty-nine weeks of fiscal 2019 compared to \$30.9 million for the same period last year. Cash spent on business acquisitions during the current fiscal year was zero compared to \$21.7 million during fiscal 2018 for the cash portion of the Acquisition purchase price. Cash spent for capital expenditures during the first thirty-nine weeks of fiscal 2019 was \$12.1 million compared to \$9.1 million during the same period last year. We expect total capital expenditures for new equipment, facility upgrades, and food safety enhancements for fiscal 2019 to be approximately \$15.0 million. Absent any material acquisitions or other significant investments, we believe that cash on hand, combined with cash provided by operations and borrowings available under the Credit Facility, will be sufficient to meet the cash requirements for planned capital expenditures.

**Financing Activities** Cash used by financing activities was \$31.3 million during the first thirty-nine weeks of fiscal 2019 compared to \$3.2 million for the same period last year. We paid \$29.1 million of dividends in the first three quarters of fiscal 2019 compared to \$28.4 million during the same period last year. Net short-term borrowings under our Credit Facility were \$3.8 million during the first three quarters of fiscal 2019 compared to borrowings of \$27.1 million during the first three quarters of fiscal 2018. The decrease in short term borrowings under our Credit Facility was due to less cash used for working capital in the first quarter of fiscal 2019 due primarily to lower nut acquisition costs. Payments on long term debt during the first thirty-nine weeks of fiscal 2019 increased approximately \$1.5 million primarily due to the payments made on the debt incurred for the Acquisition in the second quarter of fiscal 2018.

***Real Estate Matters***

In August 2008, we completed the consolidation of our Chicago-based facilities into our primary manufacturing, processing and distribution facility located in Elgin, Illinois (the Elgin Site ). The Elgin Site includes both an office building and a warehouse. We are currently attempting to find additional tenants for the available space in the office building at the Elgin Site. Until additional tenant(s) are found, we will not receive the benefit of rental income associated with such space. Approximately 63% of the rentable area in the office building is currently vacant, of which approximately 29% has not been built-out. There can be no assurance that we will be able to lease the unoccupied space and further capital expenditures will likely be necessary to lease the remaining space.

### *Financing Arrangements*

On February 7, 2008, we entered into the Credit Facility with a bank group (the *Bank Lenders*) providing a \$117.5 million revolving loan commitment and letter of credit subfacility. Also on February 7, 2008, we entered into a Loan Agreement with an insurance company (the *Mortgage Lender*) providing us with two term loans, one in the amount of \$36.0 million (*Tranche A*) and the other in the amount of \$9.0 million (*Tranche B*), for an aggregate amount of \$45.0 million (the *Mortgage Facility*).

On November 29, 2017, we entered into the Consent and Ninth Amendment to our Credit Agreement (the *Ninth Amendment*) which provided lender consent to incur unsecured debt in connection with our acquisition of the assets of the Squirrel Brand business, and for the acquisition of the Squirrel Brand business to constitute a *Permitted Acquisition* under the terms of the Credit Facility. The Ninth Amendment also modified our collateral reporting requirements.

The Credit Facility, as most recently amended in November 2017, is secured by substantially all of our assets other than machinery and equipment, real property, and fixtures and matures on July 7, 2021. The Mortgage Facility is secured by mortgages on essentially all of our owned real property located in Elgin, Illinois, Gustine, California and Garysburg, North Carolina (the *Encumbered Properties*).

#### *Credit Facility*

At our election, borrowings under the Credit Facility currently accrue interest at either (i) a rate determined pursuant to the administrative agent's prime rate plus an applicable margin determined by reference to the amount of loans which may be advanced under the borrowing base calculation, ranging from 0.25% to 0.75% or (ii) a rate based upon the London interbank offered rate (*LIBOR*) plus an applicable margin based upon the borrowing base calculation, ranging from 1.25% to 1.75%.

At March 28, 2019, the weighted average interest rate for the Credit Facility was 4.32%. The terms of the Credit Facility contain covenants that, among other things, require us to restrict investments, indebtedness, acquisitions and certain sales of assets and limit annual cash dividends or distributions, transactions with affiliates, redemptions of capital stock and prepayment of indebtedness (if such prepayment, among other things, is of a subordinate debt). If loan availability under the borrowing base calculation falls below \$25.0 million, we will be required to maintain a specified fixed charge coverage ratio, tested on a monthly basis, until loan availability equals or exceeds \$25.0 million for three consecutive months. All cash received from customers is required to be applied against the Credit Facility. The Bank Lenders have the option to accelerate and demand immediate repayment of our obligations under the Credit Facility in the event of default on the payments required under the Credit Facility, a change in control in the ownership of the Company, non-compliance with the financial covenant or upon the occurrence of other defaults by us under the Credit Facility (including a default under the Mortgage Facility). As of March 28, 2019, we were in compliance with all covenants under the Credit Facility and we currently expect to be in compliance with the financial covenant in the Credit Facility for the foreseeable future. At March 28, 2019, we had \$79.4 million of available credit under the Credit Facility. If this entire amount were borrowed at March 28, 2019, we would still be in compliance with all restrictive covenants under the Credit Facility.

#### *Mortgage Facility*

The Mortgage Facility matures on March 1, 2023. On March 1, 2018 the interest rate on the Mortgage Facility was fixed at 4.25% per annum for the remainder of the term. Monthly principal payments on Tranche A in the amount of \$0.2 million commenced on June 1, 2008. Monthly principal payments on Tranche B in the amount of \$0.1 million commenced on June 1, 2008.

The terms of the Mortgage Facility contain covenants that require us to maintain a specified net worth of \$110.0 million and maintain the Encumbered Properties. The Mortgage Lender is entitled to require immediate repayment of our obligations under the Mortgage Facility in the event we default in the payments required under the Mortgage Facility, non-compliance with the covenants or upon the occurrence of certain other defaults by us under the Mortgage Facility. As of March 28, 2019, we were in compliance with all covenants under the Mortgage Facility.



### *Selma Property*

In September 2006, we sold our Selma, Texas properties (the Selma Properties ) to two related party partnerships for \$14.3 million and are leasing them back. The selling price was determined by an independent appraiser to be the fair market value which also approximated our carrying value. The lease for the Selma Properties has a ten-year term at a fair market value rent with three five-year renewal options. In September 2015, we exercised two of the five-year renewal options which extended the lease term to September 2026. The lease extension also reduced the monthly lease payment on the Selma Properties, beginning in September 2016, to reflect then current market conditions. One five-year renewal option remains. Also, we have an option to purchase the Selma Properties from the owner at 95% (100% in certain circumstances) of the then fair market value, but not less than the original \$14.3 million purchase price. The provisions of the arrangement are not eligible for sale-leaseback accounting and the \$14.3 million was recorded as a debt obligation. No gain or loss was recorded on the Selma Properties transaction. As of March 28, 2019, \$10.2 million of the debt obligation was outstanding.

### *Squirrel Brand Seller-Financed Note*

In November 2017 we completed the Acquisition. The Acquisition was financed by a combination of cash (drawn under the Credit Facility) and a three-year seller-financed note for \$11.5 million ( Promissory Note ). The principal owner and seller of the Squirrel Brand business was subsequently appointed as an executive officer of the Company and is considered a related party. The Promissory Note is unsecured, bears interest at 5.5% per annum and is payable in equal monthly principal payments of \$0.3 million, plus interest, beginning in January 2018. Upon an event of default, as defined in the Promissory Note, the interest rate increases to 7.5% until such event of default is cured. We can pre-pay the Promissory Note at any time during the three-year period without penalty. At March 28, 2019, the principal amount of \$6.4 million of the Promissory Note was outstanding.

### *Critical Accounting Policies and Estimates*

For information regarding our Critical Accounting Policies and Estimates, see the Critical Accounting Policies and Estimates section of Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended June 28, 2018.

### *Recent Accounting Pronouncements*

Refer to Note 13 Recent Accounting Pronouncements of the Notes to Consolidated Financial Statements, contained in Part I, Item 1 of this form 10-Q, for a discussion of recently issued and adopted accounting pronouncements.

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## FORWARD LOOKING STATEMENTS

Some of the statements in this report are forward-looking (including statements concerning our expectations regarding market risk and the impact of the purchasing decisions of major customers). These forward-looking statements may be generally identified by the use of forward-looking words and phrases such as will, intends, may, believes, anticipates, should and expects and are based on the Company's current expectations or beliefs concerning future events and involve risks and uncertainties. Consequently, the Company's actual results could differ materially. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors that affect the subject of these statements, except where expressly required to do so by law. Among the factors that could cause results to differ materially from current expectations are: (i) the risks associated with our vertically integrated model with respect to pecans, peanuts and walnuts; (ii) sales activity for the Company's products, such as a decline in sales (of branded products, private label products or otherwise) to one or more key customers, a change in product mix to lower price products, a decline in sales of private brand products or changing consumer preferences, including a shift from higher margin products to lower margin products; (iii) changes in the availability and costs of raw materials and the impact of fixed price commitments with customers; (iv) the ability to pass on price increases to customers if commodity costs rise and the potential for a negative impact on demand for, and sales of, our products from price increases; (v) the ability to measure and estimate bulk inventory, fluctuations in the value and quantity of the Company's nut inventories due to fluctuations in the market prices of nuts and bulk inventory estimation adjustments, respectively; (vi) the Company's ability to appropriately respond to, or lessen the negative impact of, competitive and pricing pressures; (vii) losses associated with product recalls, product contamination, food labeling or other food safety issues, or the potential for lost sales or product liability if customers lose confidence in the safety of the Company's products or in nuts or nut products in general, or are harmed as a result of using the Company's products; (viii) the ability of the Company to control expenses, such as compensation, medical and administrative expense; (ix) the potential negative impact of government regulations and laws and regulations pertaining to food safety, such as the Food Safety Modernization Act; (x) uncertainty in economic conditions, including the potential for economic downturn; (xi) the timing and occurrence (or nonoccurrence) of other transactions and events which may be subject to circumstances beyond the Company's control; (xii) the adverse effect of labor unrest or disputes, litigation and/or legal settlements, including potential unfavorable outcomes exceeding any amounts accrued; (xiii) losses due to significant disruptions at any of our production or processing facilities; (xiv) the inability to implement our Strategic Plan, including growing our branded and private brand product sales and expanding into alternative sales channels; (xv) technology disruptions or failures; (xvi) the inability to protect the Company's brand value, intellectual property or avoid intellectual property disputes; (xvii) the Company's ability to manage successfully the price gap between its private brand products and those of its branded competitors; and (xviii) potential increased industry-specific regulation pending the U.S. Food and Drug Administration assessment of the risk of Salmonella contamination associated with tree nuts.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no material change in our assessment of our sensitivity to market risk since our presentation set forth in Part I Item 7A Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended June 28, 2018.

### **Item 4. Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of March 28, 2019. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 28, 2019, the Company's disclosure controls and procedures were effective.

In connection with the evaluation by our management, including our Chief Executive Officer and Chief Financial Officer, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended March 28, 2019 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a discussion of legal proceedings, see Note 10 Commitments and Contingent Liabilities in Part I, Item 1 of this Form 10-Q.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report on Form 10-Q, you should also consider the factors, risks and uncertainties which could materially affect our Company's business, financial condition or future results as discussed in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended June 28, 2018. There were no significant changes to the risk factors identified on the Form 10-K for the fiscal year ended June 28, 2018 during the third quarter of fiscal 2019.

See Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this Form 10-Q, and see Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in the Company's Annual Report on Form 10-K for the fiscal year ended June 28, 2018.

### **Item 6. Exhibits**

The exhibits filed herewith are listed in the exhibit index below.

**EXHIBIT INDEX**

(Pursuant to Item 601 of Regulation S-K)

Exhibit

| No.   | Description   |
|-------|---|
| 3.1   | <u>Restated Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Form 10-Q for the quarter ended March 24, 2005)</u>  |
| 3.2   | <u>Amended and Restated Bylaws of the Company (incorporated by reference from Exhibit 3.2 to the Form 10-K for the fiscal year ended June 25, 2015)</u>   |
| *10.1 | <u>1998 Equity Incentive Plan (incorporated by reference from Exhibit 10 to the Form 10-Q for the quarter ended September 24, 1998)</u>   |
| *10.2 | <u>First Amendment to the 1998 Equity Incentive Plan (incorporated by reference from Exhibit 10.35 to the Form 10-Q for the quarter ended December 28, 2000)</u>  |
| *10.3 | <u>Amended and Restated John B. Sanfilippo &amp; Son, Inc. Split-Dollar Insurance Agreement Number Two among Michael J. Valentine, as trustee of the Valentine Life Insurance Trust, Mathias Valentine, Mary Valentine and the Company, dated December 31, 2003 (incorporated by reference from Exhibit 10.35 to the Form 10-Q for the quarter ended December 25, 2003)</u>                                     |
| *10.4 | <u>Amendment, dated February 12, 2004, to Amended and Restated John B. Sanfilippo &amp; Son, Inc. Split-Dollar Insurance Agreement Number Two among Michael J. Valentine, as trustee of the Valentine Life Insurance Trust, Mathias Valentine, Mary Valentine and the Company, dated December 31, 2003 (incorporated by reference from Exhibit 10.47 to the Form 10-Q for the quarter ended March 25, 2004)</u> |
| *10.5 | <u>Restated Supplemental Retirement Plan (incorporated by reference from Exhibit 10.16 to the Form 10-K for the fiscal year ended June 28, 2007)</u>  |
| *10.6 | <u>2008 Equity Incentive Plan, as amended (incorporated by reference from Exhibit 10.24 to the Form 10-K for the fiscal year ended June 28, 2012)</u>   |
| *10.7 | <u>Form of Indemnification Agreement (incorporated by reference from Exhibit 10.01 to the Form 8-K filed on May 5, 2009)</u>  |
| *10.8 | <u>2014 Omnibus Incentive Plan (incorporated by reference from Exhibit 4.1 to the Registration Statement on Form S-8 filed on October 28, 2014)</u>   |

## Exhibit

| No.    | Description   |
|--------|---|
| *10.9  | <u>Amendment No. 1 to the 2014 Omnibus Incentive Plan (incorporated by reference from Exhibit 10.12 to the Form 10-K for the year ended June 30, 2016)</u>  |
| *10.10 | <u>Form of Non-Employee Director Restricted Stock Unit Award Agreement (non-deferral) under 2014 Omnibus Plan (fiscal 2016, 2017, 2018 and 2019 awards cycle) (incorporated by reference from Exhibit 10.38 to the Form 10-Q for the quarter ended December 24, 2015)</u>   |
| *10.11 | <u>Form of Non-Employee Director Restricted Stock Unit Award Agreement (deferral) under 2014 Omnibus Plan (fiscal 2016, 2017, 2018 and 2019 awards cycle) (incorporated by reference from Exhibit 10.39 to the Form 10-Q for the quarter ended December 24, 2015)</u>   |
| *10.12 | <u>Form of Employee Restricted Stock Unit Award Agreement under 2014 Omnibus Plan (fiscal 2016 awards cycle) (incorporated by reference from Exhibit 10.40 to the Form 10-Q for the quarter ended December 24, 2015)</u>  |
| *10.13 | <u>Form of Employee Restricted Stock Unit Award Agreement under 2014 Omnibus Plan (fiscal 2017 awards cycle) (incorporated by reference from Exhibit 10.19 to the Form 10-Q for the quarter ended December 29, 2016)</u>  |
| *10.14 | <u>Form of Employee Restricted Stock Unit Award Agreement under 2014 Omnibus Plan (fiscal 2018 and 2019 awards cycle) (incorporated by reference from Exhibit 10.20 to the Form 10-Q for the quarter ended December 28, 2017)</u>   |
| *10.15 | <u>Amended and Restated Sanfilippo Value Added Plan, dated August 20, 2015 (incorporated by reference from Exhibit 10.11 to the Form 10-K for the year ended June 25, 2015)</u>   |
| 10.16  | <u>Credit Agreement, dated as of February 7, 2008, by and among the Company, the financial institutions named therein as lenders, Wells Fargo Foothill, LLC ( WFF ), as the arranger and administrative agent for the lenders, and Wachovia Capital Finance Corporation (Central), in its capacity as documentation agent (incorporated by reference from Exhibit 10.1 to the Form 8-K filed on February 8, 2008)</u> |

## Exhibit

| No.   | Description   |
|-------|---|
| 10.17 | <u>Security Agreement, dated as of February 7, 2008, by the Company in favor of WFF, as administrative agent for the Lenders (incorporated by reference from Exhibit 10.2 to the Form 8-K filed on February 8, 2008)</u>  |
| 10.18 | <u>Loan Agreement, dated as of February 7, 2008, by and between the Company and Transamerica Financial Life Insurance Company ( TFLIC ) (incorporated by reference from Exhibit 10.3 to the Form 8-K filed on February 8, 2008)</u>   |
| 10.19 | <u>First Amendment to Credit Agreement, dated as of March 8, 2010, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent and Burdale Financial Limited, as a lender (incorporated by reference from Exhibit 10.19 to the Form 10-K filed on August 23, 2017)</u>   |
| 10.20 | <u>Second Amendment to Credit Agreement, dated as of July 15, 2011, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent, and Southwest Georgia Farm Credit, ACA for itself and as agent/nominee for Southwest Georgia Farm Credit, FLCA, as a lender (incorporated by reference from Exhibit 10.1 to the Form 8-K filed on July 18, 2011)</u>                        |
| 10.21 | <u>Third Amendment to Credit Agreement, dated as of October 31, 2011, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent, and Southwest Georgia Farm Credit, ACA, for itself and as agent/nominee for Southwest Georgia Farm Credit, FLCA, as a lender (incorporated by reference from Exhibit 10.34 to the Form 10-Q for the quarter ended September 29, 2011)</u> |
| 10.22 | <u>Consent and Fourth Amendment to Credit Agreement, dated as of January 22, 2013, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent, and Southwest Georgia Farm Credit, ACA, for itself and as agent/nominee for Southwest Georgia Farm Credit, FLCA, as a lender (incorporated by reference from Exhibit 99.1 to the Form 8-K filed on February 4, 2013)</u>     |
| 10.23 | <u>Consent and Fifth Amendment to Credit Agreement, dated as of December 16, 2013, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent, and Southwest Georgia Farm Credit, ACA, for itself and as agent/nominee for Southwest Georgia Farm Credit, FLCA, as a lender (incorporated by reference from Exhibit 99.1 to the Form 8-K filed on December 17, 2013)</u>    |

Exhibit

| No.    | Description  |
|--------|--|
| 10.24  | <u>Sixth Amendment to Credit Agreement, dated as of September 30, 2014, by and among the Company, Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and administrative agent, and Southwest Georgia Farm Credit, ACA, as lender. (incorporated by reference from Exhibit 10.1 to the Form 8-K filed on October 3, 2014)</u>  |
| 10.25  | <u>Seventh Amendment to Credit Agreement, dated as of July 7, 2016, by and among John B. Sanfilippo &amp; Son, Inc., Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and the administrative agent, and Southwest Georgia Farm Credit, ACA, as a lender. (incorporated by reference from Exhibit 99.2 to the Form 8-K filed on July 7, 2016)</u>                    |
| 10.26  | <u>Eighth Amendment to Credit Agreement, dated as of July 7, 2017, by and among John B. Sanfilippo &amp; Son, Inc., Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and the administrative agent, and Southwest Georgia Farm Credit, ACA, as a lender. (incorporated by reference from Exhibit 99.1 to the Form 8-K filed on July 11, 2017)</u>                    |
| 10.27  | <u>Consent and Ninth Amendment to Credit Agreement dated as of November 29, 2017, by and among John B. Sanfilippo &amp; Son, Inc., Wells Fargo Capital Finance, LLC (f/k/a WFF), as a lender and the administrative agent, and Southwest Georgia Farm Credit, ACA, as a lender. (incorporated by reference from Exhibit 99.1 to the Form 8-K filed on November 30, 2017)</u> |
| 10.28  | <u>First Amendment to Security Agreement, dated as of September 30, 2014, by the Company in favor of Wells Fargo Capital Finance, LLC (f/k/a WFF), as administrative agent for the lenders. (incorporated by reference from Exhibit 10.2 to the Form 8-K filed on October 3, 2014)</u>   |
| *10.29 | <u>Employment agreement, dated as of November 30, 2017, by and between the Company and J. Brent Meyer (incorporated by reference from Exhibit 10.36 to the Form 10-Q for the quarter ended December 28, 2017)</u>  |
| 31.1   | <u>Certification of Jeffrey T. Sanfilippo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended</u>  |
| 31.2   | <u>Certification of Michael J. Valentine pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended</u>   |
| 32.1   | <u>Certification of Jeffrey T. Sanfilippo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended</u>   |

Exhibit

| No.     | Description   |
|---------|---|
| 32.2    | <u>Certification of Michael J. Valentine pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended</u> |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Indicates a management contract or compensatory plan or arrangement.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on May 1, 2019.

JOHN B. SANFILIPPO & SON, INC.

By /s/ MICHAEL J. VALENTINE  
Michael J. Valentine  
Chief Financial Officer, Group President  
and Secretary