SANFILIPPO JOHN B & SON INC
Form 10-Q
April 30, 2009

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

**(Mark one)**

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

**For the quarterly period ended March 26, 2009**

**OR**

o **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 | 36-2419677 |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| 1703 North Randall Road<br>Elgin, Illinois | 60123-7820 |
| *(Address of principal executive offices)* | *(Zip code)* |

(847) 289-1800

*(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, and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer o | Accelerated filer þ | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company þ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

As of April 29, 2009, 8,022,699 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.

**JOHN B. SANFILIPPO & SON, INC.**
**FORM 10-Q**
**FOR THE QUARTER ENDED MARCH 26, 2009**
**INDEX**

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## PART I FINANCIAL INFORMATION
## Item 1. Financial Statements
## JOHN B. SANFILIPPO & SON, INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(Dollars in thousands, except earnings per share)

| | For the Quarter Ended | | For the Thirty-nine Weeks Ended | |
|---|---|---|---|---|
| | March 26, 2009 | March 27, 2008 | March 26, 2009 | March 27, 2008 |
| Net sales | $ 113,789 | $ 106,716 | $ 426,368 | $ 416,514 |
| Cost of sales | 100,578 | 93,878 | 374,427 | 368,539 |
| Gross profit | 13,211 | 12,838 | 51,941 | 47,975 |
| Operating expenses: | | | | |
| Selling expenses | 7,694 | 7,835 | 26,056 | 26,332 |
| Administrative expenses | 6,175 | 4,511 | 15,894 | 14,177 |
| Restructuring expenses | | 362 | (332) | 1,765 |
| Total operating expenses | 13,869 | 12,708 | 41,618 | 42,274 |
| (Loss) income from operations | (658) | 130 | 10,323 | 5,701 |
| Other expense: | | | | |
| Interest expense ($273, $277, $821 and $833 to related parties) | (1,777) | (2,662) | (6,019) | (8,039) |
| Debt extinguishment costs | | (6,737) | | (6,737) |
| Rental and miscellaneous income (expense), net | (340) | (89) | (945) | (37) |
| Total other expense, net | (2,117) | (9,488) | (6,964) | (14,813) |
| (Loss) income before income taxes | (2,775) | (9,358) | 3,359 | (9,112) |
| Income tax (benefit) expense | (286) | (608) | 393 | (490) |
| Net (loss) income | $ (2,489) | $ (8,750) | $ 2,966 | $ (8,622) |
| Other comprehensive income, net of tax: | | | | |
| Adjustment for prior service cost and actuarial gain amortization related to retirement plan | 103 | 98 | 309 | 292 |
| Net comprehensive (loss) income | $ (2,386) | $ (8,652) | $ 3,275 | $ (8,330) |
| Basic and diluted (loss) earnings per common share | $ (0.23) | $ (0.82) | $ 0.28 | $ (0.81) |

*The accompanying notes are an*

*integral part of these consolidated financial statements.*

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**JOHN B. SANFILIPPO & SON, INC.**
**CONSOLIDATED BALANCE SHEETS**
(Unaudited)
(Dollars in thousands, except per share amounts)

| | March 26, 2009 | June 26, 2008 | March 27, 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS: | | | |
| Cash | $ 1,091 | $ 716 | $ 1,988 |
| Restricted cash | | | 7,954 |
| Accounts receivable, less allowances of $2,525, $2,217 and $3,167 | 36,548 | 34,424 | 34,680 |
| Inventories | 125,702 | 127,032 | 141,661 |
| Income taxes receivable | | 222 | 290 |
| Deferred income taxes | 2,990 | 2,595 | 1,499 |
| Prepaid expenses and other current assets | 2,287 | 1,592 | 1,432 |
| Asset held for sale | | 5,569 | 5,569 |
| TOTAL CURRENT ASSETS | 168,618 | 172,150 | 195,073 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | 9,463 | 9,463 | 9,463 |
| Buildings | 100,078 | 99,883 | 98,962 |
| Machinery and equipment | 148,867 | 147,631 | 149,894 |
| Furniture and leasehold improvements | 6,227 | 6,247 | 6,239 |
| Vehicles | 676 | 724 | 745 |
| Construction in progress | 1,426 | 1,411 | 4,021 |
| | 266,737 | 265,359 | 269,324 |
| Less: Accumulated depreciation | 131,281 | 123,626 | 124,805 |
| | 135,456 | 141,773 | 144,519 |
| Rental investment property, less accumulated depreciation of $3,334, $2,660 and $2,435 | 26,796 | 27,471 | 27,695 |
| Development agreement | 5,569 | | |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 167,821 | 169,204 | 172,214 |
| Cash surrender value of officers life insurance and other assets | 8,317 | 8,435 | 8,645 |
| Brand name, less accumulated amortization of $7,245, $6,925 and $6,818 | 675 | 995 | 1,102 |
| TOTAL ASSETS | $ 345,431 | $ 350,784 | $ 377,034 |

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

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**JOHN B. SANFILIPPO & SON, INC.**
**CONSOLIDATED BALANCE SHEETS**
(Unaudited)
(Dollars in thousands, except per share amounts)

| | March 26, 2009 | June 26, 2008 | March 27, 2008 |
|---|---|---|---|
| **LIABILITIES & STOCKHOLDERS EQUITY** | | | |
| CURRENT LIABILITIES: | | | |
| Revolving credit facility borrowings | $ 56,603 | $ 67,948 | $ 87,038 |
| Current maturities of long-term debt, including related party debt of $229, $216 and $212 | 11,797 | 12,251 | 11,872 |
| Accounts payable, including related party payables of $762, $449 and $730 | 24,957 | 25,355 | 26,089 |
| Income taxes payable | 351 | | |
| Book overdraft | 4,525 | 4,298 | 10,994 |
| Accrued payroll and related benefits | 8,196 | 7,740 | 8,256 |
| Accrued workers compensation | 4,857 | 4,838 | 6,610 |
| Accrued recall | 3,154 | | |
| Accrued restructuring | | 1,287 | 1,378 |
| Other accrued expenses | 6,963 | 5,570 | 5,871 |
| TOTAL CURRENT LIABILITIES | 121,403 | 129,287 | 158,108 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt, less current maturities, including related party debt of $13,470, $13,644 and $13,699 | 50,184 | 52,356 | 53,481 |
| Retirement plan | 8,211 | 8,174 | 8,914 |
| Deferred income taxes | 2,990 | 2,595 | 1,499 |
| Other | 1,382 | | |
| TOTAL LONG-TERM LIABILITIES | 62,767 | 63,125 | 63,894 |
| COMMITMENTS AND CONTINGENCIES | | | |
| STOCKHOLDERS EQUITY: | | | |
| 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, 8,140,599, 8,134,599 and 8,134,599 shares issued and outstanding | 81 | 81 | 81 |
| Capital in excess of par value | 101,017 | 100,810 | 100,705 |
| Retained earnings | 64,226 | 61,853 | 59,189 |
| Accumulated other comprehensive loss | (2,885) | (3,194) | (3,765) |
| Treasury stock, at cost; 117,900 shares of Common Stock | (1,204) | (1,204) | (1,204) |

| | | | |
|---|---|---|---|
| TOTAL STOCKHOLDERS EQUITY | 161,261 | 158,372 | 155,032 |
| TOTAL LIABILITIES & STOCKHOLDERS EQUITY | $ 345,431 | $ 350,784 | $ 377,034 |

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

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**JOHN B. SANFILIPPO & SON, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(Dollars in thousands)

| | For the Thirty-nine Weeks Ended March 26, 2009 | March 27, 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $ 2,966 | $ (8,622) |
| Depreciation and amortization | 11,728 | 11,856 |
| Loss (gain) on disposition of properties | 138 | (79) |
| Deferred income tax expense | | (466) |
| Stock-based compensation expense | 171 | 292 |
| Change in current assets and current liabilities: | | |
| Accounts receivable, net | (2,124) | 1,344 |
| Inventories | 1,330 | (7,502) |
| Prepaid expenses and other current assets | (695) | (282) |
| Accounts payable | (398) | 4,825 |
| Accrued expenses | 3,735 | 3,993 |
| Income taxes payable/receivable | 573 | 6,423 |
| Other operating assets | 531 | (141) |
| Net cash provided by operating activities | 17,955 | 11,641 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (3,766) | (10,897) |
| Proceeds from disposition of properties | 97 | 107 |
| Increase in restricted cash | | (7,954) |
| Cash surrender value of officers life insurance | (203) | (202) |
| Net cash used in investing activities | (3,872) | (18,946) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings under revolving credit facility | 134,991 | 43,461 |
| Repayments of revolving credit borrowings | (146,336) | (46,452) |
| Initial borrowing under new revolving credit facility | | 82,031 |
| Payment of amounts outstanding under prior revolving credit facility | | (65,283) |
| Principal payments on long-term debt | (2,626) | (54,607) |
| Issuance of long-term debt | | 45,000 |
| Debt issue costs | | (3,273) |
| Increase in book overdraft | 227 | 5,979 |
| Issuance of Common Stock under option plans | 36 | 72 |
| Tax benefit of stock options exercised | | 6 |
| Net cash (used in) provided by financing activities | (13,708) | 6,934 |

| | | | | |
|---|---|---|---|---|
| NET INCREASE (DECREASE) IN CASH | | 375 | | (371) |
| Cash, beginning of period | | 716 | | 2,359 |
| Cash, end of period | $ | 1,091 | $ | 1,988 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | | |
| Capital lease obligations incurred | | | | 207 |

*The accompanying 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**

We were incorporated under the laws of the State of Delaware in 1979 as the successor by merger to an Illinois corporation that was incorporated in 1959. As used herein, unless the context otherwise indicates, the terms Company , we , us , our or our Company collectively refer to John B. Sanfilippo & Son, Inc. and JBSS Properties LLC, a wholly-owned subsidiary of John B. Sanfilippo & Son, Inc. Our fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters). References herein to fiscal 2009 are to the fiscal year ending June 25, 2009. References herein to fiscal 2008 are to the fiscal year ended June 26, 2008. References herein to the third quarter of fiscal 2009 are to the quarter ended March 26, 2009. References herein to the first thirty-nine weeks of fiscal 2009 are to the thirty-nine weeks ended March 26, 2009. References herein to the third quarter of fiscal 2008 are to the quarter ended March 27, 2008. References herein to the first thirty-nine weeks of fiscal 2008 are to the thirty-nine weeks ended March 27, 2008.

In the opinion of our management, the accompanying statements fairly present the consolidated statements of operations, consolidated balance sheets and consolidated statements of cash flows, and reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of our management, are necessary for the fair presentation of the results of the interim periods.

The interim results of operations are not necessarily indicative of the results to be expected for a full year. The balance sheet as of June 26, 2008 was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles in the United States of America. We suggest that you read these financial statements in conjunction with the financial statements and notes thereto included in our 2008 Annual Report filed on Form 10-K for the year ended June 26, 2008.

**Note 2 Accounts Receivable**

Included in accounts receivable as of March 26, 2009, June 26, 2008 and March 27, 2008 are $1,076, $1,000 and $3,031, respectively, relating to workers compensation excess claim recoveries.

**Note 3 Inventories**

Inventories are stated at the lower of cost (first in, first out) or market. Inventories consist of the following:

| | **March 26, 2009** | **June 26, 2008** | **March 27, 2008** |
|---|---|---|---|
| Raw material and supplies | $ 72,555 | $ 59,770 | $ 81,803 |
| Work-in-process and finished goods | 53,147 | 67,262 | 59,858 |
| Inventories | $ 125,702 | $ 127,032 | $ 141,661 |

**Note 4 Income Taxes**

At the beginning of fiscal year 2009, we had $2.4 million of state and $3.3 million of federal net operating loss ( NOL ) carryforwards for income tax purposes. The state NOL carryforward relates to losses generated during the years ended June 26, 2008, June 28, 2007 and June 29, 2006, which generally have a carryforward period of approximately 12 years before expiration. The federal NOL carryforward relates to losses generated during the year ended June 26, 2008, which generally have a carryforward period of 20 years before expiration. In our effective rate for the quarter and year-to-date period, based on our currently anticipated annual operating results we have estimated utilizing a portion of the NOL and the respective valuation allowance during fiscal 2009, which was the primary factor in our effective tax rate varying from the federal statutory rate. Due to our cumulative losses for the last three fiscal years, we believe it is currently more likely than not that we will be unable to utilize primarily state NOL carryforwards in periods subsequent to fiscal year 2009. Consequently, we have continued to provide a valuation allowance of $2.6 million primarily related to state jurisdiction NOL carryforwards as of March 26, 2009. We will consider the

need for, and the amount of the valuation allowance in the future as actual operating results are achieved.
As of March 26, 2009, unrecognized tax benefits and accrued interest and penalties were not material. We recognize interest and penalties accrued related to unrecognized tax benefits in the income tax (benefit) expense caption in the statement of operations. We file income tax returns with federal and state tax authorities within the United States of America. The Internal Revenue Service has concluded auditing our Company s tax return for fiscal 2004, and there was no impact to our Company. The Illinois Department of Revenue has concluded its audits of our tax returns through fiscal 2005, and there was no material impact to our Company. No other tax jurisdictions are material to us.

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As of March 26, 2009, there have been no material changes to the amount of unrecognized tax benefits. We do not anticipate that total unrecognized tax benefits will significantly change in the future.

**Note 5 Earnings Per Common Share**

Earnings per common share is calculated using the weighted average number of shares of Common Stock and Class A Common Stock outstanding during the period. The following table presents the reconciliation of the weighted average number of shares outstanding used in computing earnings per share:

| | For the Quarter Ended | | For the Thirty-nine Weeks Ended | |
|---|---|---|---|---|
| | March 26, 2009 | March 27, 2008 | March 26, 2009 | March 27, 2008 |
| Weighted average number of shares outstanding basic | 10,618,587 | 10,614,125 | 10,617,612 | 10,608,988 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock units | | | 19,059 | |
| Weighted average number of shares outstanding diluted | 10,618,587 | 10,614,125 | 10,636,671 | 10,608,988 |

380,440 stock options with a weighted average exercise price of $12.00 and 46,500 restricted stock units were excluded from the computation of diluted earnings per share for the quarter ended March 26, 2009 due to the net loss for the period. 290,125 stock options with a weighted average exercise price of $13.75 were excluded from the computation of diluted earnings per share for the thirty-nine weeks ended March 26, 2009, due to the exercise price exceeding the average market price of the Common Stock. 476,940 stock options with a weighted average exercise price of $11.45 were excluded from the computation of diluted earnings per share for both the quarter and thirty-nine weeks ended March 27, 2008, due to the net loss for the quarterly and thirty-nine week periods.

**Note 6 Stock-Based Compensation**

At our annual meeting of stockholders on October 28, 1998, our stockholders approved a stock option plan (the 1998 Equity Incentive Plan ) under which awards of options and stock-based awards could be made. There were 700,000 shares of Common Stock authorized for issuance to certain key employees and outside directors (i.e., directors who are not employees of our Company). The exercise price of the options was determined as set forth in the 1998 Equity Incentive Plan by the Board of Directors. The exercise price for the stock options was at least the fair market value of the Common Stock on the date of grant. Except as set forth in the 1998 Equity Incentive Plan, options expire upon termination of employment or directorship. The options granted under the 1998 Equity Incentive Plan are exercisable 25% annually commencing on the first anniversary date of grant and become fully exercisable on the fourth anniversary date of grant. Options generally will expire no later than ten years after the date on which they are granted. We issue new shares of Common Stock upon exercise of stock options. Through fiscal 2007, all of the options granted, except those granted to outside directors, were intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code. Effective fiscal 2008, all option grants are non-qualified awards. The 1998 Equity Incentive Plan terminated on September 1, 2008. However, all outstanding options will continue to be governed by the terms of the 1998 Equity Incentive Plan.

At our annual meeting of stockholders on October 30, 2008, our stockholders approved a new equity incentive plan (the 2008 Equity Incentive Plan ) under which awards of options and stock-based awards may be made to members of the Board of Directors, employees and other individuals providing services to our Company. A total of 1,000,000 shares of Common Stock are authorized for grants of awards, which may be in the form of options, restricted stock, restricted stock units, stock appreciation rights, Common Stock or dividends and dividend equivalents. A maximum of 500,000 of the 1,000,000 shares of Common Stock may be used for grants of Common Stock, restricted stock and restricted stock units. Additionally, awards of options or stock appreciation rights are limited to 100,000 shares annually, and awards of Common Stock, restricted stock or restricted stock units are limited to 50,000 shares annually.

During the second quarter of fiscal 2009, 46,500 restricted stock units were awarded to employees and members of the Board of Directors. The vesting period is three years for awards to employees and one year for awards to non-employee members of the Board of Directors. We are recognizing expenses over the applicable vesting period based on the market value of our Common Stock at the grant date.

The following is a summary of stock option activity for the first thirty-nine weeks of fiscal 2009:

| **Options** | **Shares** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Term** | **Aggregate Intrinsic Value** |
|---|---|---|---|---|
| Outstanding, at June 26, 2008 | 470,440 | $ 11.49 | | |
| Activity: | | | | |
| Granted | | | | |
| Exercised | (6,000) | 5.85 | | |
| Forfeited | (84,000) | 9.58 | | |
| Outstanding, at March 26, 2009 | 380,440 | $ 12.00 | 5.14 | $ 21 |
| Exercisable, at March 26, 2009 | 278,440 | $ 12.74 | 4.31 | $ 21 |

No stock options were granted during the first thirty-nine weeks of fiscal 2009. The weighted average grant date fair value of stock options granted during the first thirty-nine weeks of fiscal 2008 was $4.47. The total intrinsic value of options exercised during the first thirty-nine weeks of fiscal 2009 and fiscal 2008 was $1 and $16, respectively. Compensation expense attributable to stock-based compensation during the first thirty-nine weeks of fiscal 2009 and fiscal 2008 was $171 and $292, respectively. As of March 26, 2009, there was $617 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under our stock-based compensation plans. We expect to recognize that cost over a weighted average period of 0.80 years.
The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | **Thirty-nine Weeks Ended March 27, 2008** |
|---|---|
| Weighted average expected stock-price volatility | 54.27% |
| Average risk-free rate | 3.70% |
| Average dividend yield | 0.00% |
| Weighted average expected option life (in years) | 6.25 |
| Forfeiture percentage | 5.00% |

**Note 7 Retirement Plan**

On August 2, 2007, our Compensation, Nominating and Corporate Governance Committee approved a restated Supplemental Retirement Plan (the SERP ) for certain of our named executive officers and key employees, effective as of August 25, 2005. The purpose of the SERP is to provide an unfunded, non-qualified deferred compensation benefit upon retirement, disability or death to certain executive officers and key employees. The monthly benefit is based upon each individual s earnings and his number of years of service. Administrative expenses include the following net periodic benefit costs:

| | **For the Quarter Ended** | | **For the Thirty-nine Weeks Ended** | |
|---|---|---|---|---|
| | **March 26, 2009** | **March 27, 2008** | **March 26, 2009** | **March 27, 2008** |

| | | | | |
|---|---|---|---|---|
| Service cost | $ 34 | $ 35 | $ 103 | $ 104 |
| Interest cost | 140 | 144 | 421 | 432 |
| Amortization of prior service cost | 239 | 239 | 718 | 717 |
| Amortization of gain | (80) | (90) | (242) | (270) |