

SANFILIPPO JOHN B & SON INC

Form 10-Q

January 27, 2010

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**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 December 24, 2009

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

36-2419677

*(State or other jurisdiction of
incorporation or organization)*

*(I.R.S. Employer
Identification No.)*

1703 North Randall Road
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. Yes 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 No

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 Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 January 27, 2010, 8,043,449 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 DECEMBER 24, 2009
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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 Twenty-six Weeks Ended	
	December 24, 2009	December 25, 2008	December 24, 2009	December 25, 2008
Net sales	\$ 180,070	\$ 177,755	\$ 306,882	\$ 312,579
Cost of sales	147,334	153,209	250,272	273,849
Gross profit	32,736	24,546	56,610	38,730
Operating expenses:				
Selling expenses	11,824	10,379	20,547	18,362
Administrative expenses	5,530	5,106	10,971	9,719
Restructuring expenses				(332)
Total operating expenses	17,354	15,485	31,518	27,749
Income from operations	15,382	9,061	25,092	10,981
Other expense:				
Interest expense (\$270, \$273, \$540 and \$548 to related parties)	(1,339)	(2,099)	(2,786)	(4,242)
Rental and miscellaneous income (expense), net	(225)	(411)	(641)	(605)
Total other expense, net	(1,564)	(2,510)	(3,427)	(4,847)
Income before income taxes	13,818	6,551	21,665	6,134
Income tax expense	4,998	712	8,079	679
Net income	\$ 8,820	\$ 5,839	\$ 13,586	\$ 5,455
Other comprehensive income, net of tax:				
Adjustment for prior service cost and actuarial gain amortization related to retirement plan	102	103	204	206
Net comprehensive income	\$ 8,922	\$ 5,942	\$ 13,790	\$ 5,661
Basic earnings per common share	\$ 0.83	\$ 0.55	\$ 1.28	\$ 0.51
Diluted earnings per common share	\$ 0.82	\$ 0.55	\$ 1.27	\$ 0.51

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

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

(Unaudited)

(Dollars in thousands, except per share amounts)

	December 24, 2009	June 25, 2009	December 25, 2008
ASSETS			
CURRENT ASSETS:			
Cash	\$ 4,501	\$ 863	\$ 6,579
Accounts receivable, less allowances of \$3,744, \$2,765 and \$2,829	40,613	34,760	48,350
Inventories	121,695	106,289	128,296
Deferred income taxes	4,530	4,108	2,722
Prepaid expenses and other current assets	1,384	1,784	2,448
TOTAL CURRENT ASSETS	172,723	147,804	188,395
PROPERTY, PLANT AND EQUIPMENT:			
Land	9,463	9,463	9,463
Buildings	101,086	100,482	100,008
Machinery and equipment	148,710	150,266	148,212
Furniture and leasehold improvements	3,885	6,231	6,213
Vehicles	603	676	667
Construction in progress	1,954	1,734	926
	265,701	268,852	265,489
Less: Accumulated depreciation	133,293	134,648	128,033
	132,408	134,204	137,456
Rental investment property, less accumulated depreciation of \$4,009, \$3,559 and \$3,110	31,691	32,141	32,590
TOTAL PROPERTY, PLANT AND EQUIPMENT	164,099	166,345	170,046
Cash surrender value of officers' life insurance and other assets	7,608	7,981	8,256
Brand name, less accumulated amortization of \$7,565, \$7,351 and \$7,138	355	569	782
TOTAL ASSETS	\$ 344,785	\$ 322,699	\$ 367,479

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

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

(Unaudited)

(Dollars in thousands, except per share amounts)

	December 24, 2009	June 25, 2009	December 25, 2008
LIABILITIES & STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Revolving credit facility borrowings	\$ 4,933	\$ 33,232	\$ 55,141
Current maturities of long-term debt, including related party debt of \$244, \$234 and \$225	11,435	11,690	11,948
Accounts payable, including related party payables of \$180, \$687 and \$592	54,303	23,479	48,207
Book overdraft	7,759	5,632	6,409
Accrued payroll and related benefits	8,639	8,713	6,354
Accrued workers compensation	5,436	5,159	4,581
Other accrued expenses	6,736	7,149	7,291
Income taxes payable	2,639	49	31
TOTAL CURRENT LIABILITIES	101,880	95,103	139,962
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities, including related party debt of \$13,285, \$13,410 and \$13,529	47,660	49,016	50,910
Retirement plan	8,132	8,095	8,252
Deferred income taxes	6,212	3,634	3,398
Other	1,292	1,352	1,412
TOTAL LONG-TERM LIABILITIES	63,296	62,097	63,972
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, 8,161,349, 8,140,599 and 8,140,599 shares issued and outstanding	82	81	81
Capital in excess of par value	101,438	101,119	100,917
Retained earnings	81,763	68,177	66,713
Accumulated other comprehensive loss	(2,496)	(2,700)	(2,988)
Treasury stock, at cost; 117,900 shares of Common Stock	(1,204)	(1,204)	(1,204)

TOTAL STOCKHOLDERS EQUITY	179,609	165,499	163,545
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	\$ 344,785	\$ 322,699	\$ 367,479

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 Twenty-six Weeks Ended	
	December	December
	24,	25,
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,586	\$ 5,455
Depreciation and amortization	7,833	8,090
Loss on disposition of properties	58	145
Deferred income tax expense	2,156	676
Stock-based compensation expense	177	71
Change in current assets and current liabilities:		
Accounts receivable, net	(5,853)	(13,926)
Inventories	(15,406)	(1,264)
Prepaid expenses and other current assets	400	(856)
Accounts payable	30,824	22,852
Accrued expenses	(210)	(1,209)
Income taxes payable	2,590	253
Other operating assets	(47)	601
Net cash provided by operating activities	36,108	20,888
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,557)	(2,508)
Proceeds from disposition of properties	3	90
Cash surrender value of officers' life insurance	(133)	(198)
Net cash used in investing activities	(4,687)	(2,616)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	92,180	87,091
Repayments of revolving credit borrowings	(120,479)	(99,898)
Principal payments on long-term debt	(1,754)	(1,749)
Increase in book overdraft	2,127	2,111
Issuance of Common Stock under option plans	116	36
Tax benefit of stock options exercised	27	
Net cash used in financing activities	(27,783)	(12,409)
NET INCREASE IN CASH	3,638	5,863
Cash, beginning of period	863	716

Cash, end of period	\$	4,501	\$	6,579
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SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND
FINANCING ACTIVITIES:

Capital lease obligations incurred	143
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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

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. 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. 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 2010 are to the fiscal year ending June 24, 2010. References herein to fiscal 2009 are to the fiscal year ended June 25, 2009. References herein to the second quarter of fiscal 2010 are to the quarter ended December 24, 2009. References herein to the second quarter of fiscal 2009 are to the quarter ended December 25, 2008. References herein to the first twenty-six weeks of fiscal 2010 are to the twenty-six weeks ended December 24, 2009. References herein to the first twenty-six weeks of fiscal 2009 are to the twenty-six weeks ended December 25, 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 25, 2009 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 2009 Annual Report filed on Form 10-K for the fiscal year ended June 25, 2009.

Subsequent events have been evaluated through January 27, 2010, the date of issuance of the Company's Consolidated Financial Statements.

Note 2 Accounts Receivable

Included in accounts receivable as of December 24, 2009, June 25, 2009 and December 25, 2008 are \$1,114, \$1,121 and \$886, 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:

	December 24, 2009	June 25, 2009	December 25, 2008
Raw material and supplies	\$ 75,621	\$ 50,525	\$ 74,862
Work-in-process and finished goods	46,074	55,764	53,434
Inventories	\$ 121,695	\$ 106,289	\$ 128,296

Note 4 Income Taxes

During fiscal 2009, we continued to provide a valuation allowance related to state net operating loss (NOL) carryforwards until we eliminated the valuation allowance related to the potential realization of state NOL carryforwards during the fourth quarter of fiscal 2009. In fiscal 2010, we believe that the state NOL carryforwards, which generally have a carryforward period of approximately twelve years, will be fully utilized before the expiration period ends.

As of December 24, 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 material impact to our Company. The Illinois Department of Revenue has recently concluded auditing our tax returns for fiscal 2006 and fiscal 2007 with no material adjustments. No other tax jurisdictions are material to us.

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As of December 24, 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 Twenty-six Weeks Ended	
	December 24, 2009	December 25, 2008	December 24, 2009	December 25, 2008
Weighted average shares outstanding basic	10,636,804	10,618,587	10,629,323	10,616,356
Effect of dilutive securities:				
Stock options and restricted stock units	91,673	8,316	67,278	27,104
Weighted average shares outstanding diluted	10,728,477	10,626,903	10,696,601	10,643,460

125,625 anti-dilutive stock options with a weighted average exercise price of \$17.86 were excluded from the computation of diluted earnings per share for the quarter ended December 24, 2009. 356,875 anti-dilutive stock options with a weighted average exercise price of \$12.48 were excluded from the computation of diluted earnings per share for the quarter ended December 25, 2008. 152,125 anti-dilutive stock options with a weighted average exercise price of \$16.82 were excluded from the computation of diluted earnings per share for the twenty-six weeks ended December 24, 2009. 290,125 anti-dilutive stock options with a weighted average exercise price of \$13.75 were excluded from the computation of diluted earnings per share for the twenty-six weeks ended December 25, 2008.

Note 6 Stock-Based Compensation

At our annual meeting of stockholders on October 30, 2008, our stockholders approved a new equity incentive plan (the 2008 Equity Incentive Plan) pursuant to 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 to any single individual, and awards of Common Stock, restricted stock or restricted stock units are limited to 50,000 shares annually to any single individual. During the second quarter of fiscal 2009, 46,500 restricted stock units were awarded to employees and members of the Board of Directors. During the second quarter of fiscal 2010, 61,000 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 upon the market value of our Common Stock at the grant date. As of December 24, 2009, all 107,500 restricted unit awards remain outstanding with a weighted average remaining life of 2.1 years. Also, 1,500 stock options were granted during both fiscal 2009 and the first twenty-six weeks of fiscal 2010 under the 2008 Equity Incentive Plan. The exercise price of the options was determined as set forth in the 2008 Equity Incentive Plan by the Compensation Committee of our Board of Directors, and must be at least the fair market value of the Common Stock on the date of grant. Except as set forth in the 2008 Equity Incentive Plan, options expire upon termination of employment or directorship. The options granted under the 2008 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. As of December 24, 2009, 889,500 shares of Common Stock remain authorized for future grants of awards. The 2008 Equity Incentive Plan replaced a stock option plan approved at our annual meeting of stockholders on October 28, 1998 (the 1998 Equity Incentive Plan) pursuant to 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 and 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

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granted. We issue new shares of Common Stock upon exercise of stock options issued pursuant to the 1998 Equity Incentive Plan. 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 issued pursuant to the 1998 Equity Incentive Plan will continue to be governed by the terms of the 1998 Equity Incentive Plan.

The following is a summary of stock option activity for the first twenty-six weeks of fiscal 2010:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, at June 25, 2009	381,940	\$ 11.97		
Activity:				
Granted	1,500	15.30		
Exercised	(20,750)	5.58		
Forfeited	(25,500)	18.26		
Outstanding, at December 24, 2009	337,190	\$ 11.91	4.93	\$ 1,477
Exercisable, at December 24, 2009	279,940	\$ 12.55	4.42	\$ 1,103

The weighted average grant date fair value of stock options granted during the first twenty-six weeks of fiscal 2010 was \$8.30. No stock options were granted during the first twenty-six weeks of fiscal 2009. The total intrinsic value of options exercised during the first twenty-six weeks of fiscal 2010 and fiscal 2009 was \$77 and \$1, respectively. Compensation expense attributable to stock-based compensation during the first twenty-six weeks of fiscal 2010 and fiscal 2009 was \$177 and \$71, respectively. As of December 24, 2009, there was \$1,108 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 0.95 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:

	Twenty-six Weeks Ended December 24, 2009
Weighted average expected stock-price volatility	53.27%
Average risk-free rate	3.04%
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 or her number of years of service. Administrative expenses include the

following net periodic benefit costs:

	For the Quarter Ended		For the Twenty-six Weeks Ended	
	December 24, 2009	December 25, 2008	December 24, 2009	December 25, 2008
Service cost	\$ 36	\$ 34	\$ 72	\$ 69
Interest cost	146	141	292	281
Amortization of prior service cost	239	240	478	479
Amortization of gain	(83)	(81)	(166)	(162)