SANFILIPPO JOHN B & SON INC
Form 10-Q
April 28, 2011

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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 24, 2011

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 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 (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. þYes oNo

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). oYes oNo

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	Smaller reporting company o

(Do not check if a smaller reporting company)

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 28, 2011, 8,064,680 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
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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 24, 2011	March 25, 2010	March 24, 2011	March 25, 2010
Net sales	$ 137,442	$ 113,194	$ 507,830	$ 420,076
Cost of sales	127,456	99,641	450,067	349,913
Gross profit	9,986	13,553	57,763	70,163
Operating expenses:				
Selling expenses	10,985	8,629	32,972	29,176
Administrative expenses	6,602	6,324	19,019	17,295
Total operating expenses	17,587	14,953	51,991	46,471
(Loss) income from operations	(7,601)	(1,400)	5,772	23,692
Other expense:				
Interest expense ($263, $268, $793 and $808 to related parties)	(1,657)	(1,366)	(4,747)	(4,152)
Rental and miscellaneous expense, net	(277)	(285)	(784)	(926)
Total other expense, net	(1,934)	(1,651)	(5,531)	(5,078)
(Loss) income before income taxes	(9,535)	(3,051)	241	18,614
Income tax (benefit) expense	(3,910)	(1,151)	(385)	6,928
Net (loss) income	$ (5,625)	$ (1,900)	$ 626	$ 11,686
Other comprehensive income, net of tax:				
Adjustment for prior service cost and actuarial gain amortization related to retirement plan	120	101	361	305
Net comprehensive (loss) income	$ (5,505)	$ (1,799)	$ 987	$ 11,991
Basic (loss) earnings per common share	$ (0.53)	$ (0.18)	$ 0.06	$ 1.10
Diluted (loss) earnings per common share	$ (0.53)	$ (0.18)	$ 0.06	$ 1.09

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 24, 2011	June 24, 2010	March 25, 2010
ASSETS			
CURRENT ASSETS:			
Cash	$ 798	$ 1,437	$ 754
Accounts receivable (less allowances of $4,085, $2,071 and $3,078)	39,925	39,894	35,088
Inventories	158,048	114,360	124,574
Income taxes receivable	1,494	104	
Deferred income taxes	4,572	4,486	4,905
Prepaid expenses and other current assets	3,464	4,499	4,020
TOTAL CURRENT ASSETS	208,301	164,780	169,341
PROPERTY, PLANT AND EQUIPMENT:			
Land	9,463	9,463	9,463
Buildings	101,888	101,421	101,135
Machinery and equipment	157,817	155,796	150,378
Furniture and leasehold improvements	4,076	3,969	3,893
Vehicles	505	632	603
Construction in progress	647	2,033	1,530
	274,396	273,314	267,002
Less: Accumulated depreciation	148,831	140,353	136,345
	125,565	132,961	130,657
Rental investment property (less accumulated depreciation of $5,133, $4,458 and $4,234)	30,567	31,242	31,466
TOTAL PROPERTY, PLANT AND EQUIPMENT	156,132	164,203	162,123
Cash surrender value of officers life insurance and other assets	7,168	7,723	7,917
Goodwill	5,662	5,454	
Intangible assets	14,432	16,121	249
TOTAL ASSETS	$ 391,695	$ 358,281	$ 339,630

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 24, 2011	June 24, 2010	March 25, 2010
LIABILITIES & STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Revolving credit facility borrowings	$ 72,850	$ 40,437	$ 24,368
Current maturities of long-term debt(including related party debt of $269, $253 and $248)	14,835	15,549	11,297
Accounts payable(including related party payables of $24, $301 and $184)	35,307	29,625	30,326
Book overdraft	7,771	2,061	6,284
Accrued payroll and related benefits	6,419	10,613	11,496
Accrued workers compensation	4,993	5,254	5,542
Other accrued expenses	12,313	12,092	8,486
Income taxes payable			1,817
TOTAL CURRENT LIABILITIES	154,488	115,631	99,616
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities (including related party debt of $12,953, $13,156 and $13,222)	40,141	42,680	46,917
Retirement plan	10,055	9,951	8,150
Deferred income taxes	4,370	4,569	5,694
Other	1,149	5,556	1,261
TOTAL LONG-TERM LIABILITIES	55,715	62,756	62,022
COMMITMENTS AND CONTINGENT LIABILITIES			
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, 8,182,580, 8,166,849 and 8,166,849 shares issued	82	82	82
Capital in excess of par value	102,398	101,787	101,620
Retained earnings	83,228	82,602	79,863
Accumulated other comprehensive loss	(3,038)	(3,399)	(2,395)
Treasury stock, at cost; 117,900 shares of Common Stock	(1,204)	(1,204)	(1,204)
TOTAL STOCKHOLDERS EQUITY	181,492	179,894	177,992

TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$ 391,695	$ 358,281	$ 339,630

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 24, 2011	March 25, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 626	$ 11,686
Depreciation and amortization	12,776	11,708
Loss (gain) on disposition of properties	774	(80)
Deferred income tax (benefit) expense	(285)	1,263
Stock-based compensation expense	524	324
Change in current assets and current liabilities:		
Accounts receivable, net	(127)	(3,820)
Inventories	(43,685)	(18,285)
Prepaid expenses and other current assets	1,035	1,256
Accounts payable	5,682	6,847
Accrued expenses	(4,234)	4,503
Income taxes payable/receivable	(1,390)	1,768
Change in other long-term liabilities	(4,407)	(91)
Other, net	1,302	(425)
Net cash (used in) provided by operating activities	(31,409)	16,654
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(3,846)	(6,098)
Proceeds from disposition of properties	169	141
Final payment related to purchase of assets of Orchard Valley Harvest, Inc.	(115)	
Cash surrender value of officers life insurance	(127)	(134)
Net cash used in investing activities	(3,919)	(6,091)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	217,758	154,768
Repayments of revolving credit borrowings	(185,345)	(163,632)
Principal payments on long-term debt	(3,520)	(2,638)
Increase in book overdraft	5,710	652
Issuance of Common Stock under option plans	81	157
Tax benefit of stock options exercised	5	21
Net cash provided by (used in) financing activities	34,689	(10,672)
NET DECREASE IN CASH	(639)	(109)
Cash, beginning of period	1,437	863

Cash, end of period	$	798	$	754
Supplemental disclosures of cash flow information:				
Capital lease obligations incurred		267		146

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 collecti 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 2011 are to the fiscal year ending June 30, 2011 and will consist of fifty-three weeks (the fourth quarter consisting of fourteen weeks). References herein to fiscal 2010 are to the fiscal year ended June 24, 2010. References herein to the third quarter of fiscal 2011 are to the quarter ended March 24, 2011. References herein to the third quarter of fiscal 2010 are to the quarter ended March 25, 2010. References herein to the first thirty-nine weeks of fiscal 2011 are to the thirty-nine weeks ended March 24, 2011. References herein to the first thirty-nine weeks of fiscal 2010 are to the thirty-nine weeks ended March 25, 2010.

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 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 24, 2010 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 2010 Annual Report filed on Form 10-K for the fiscal year ended June 24, 2010.

Certain amounts were reclassified from Accounts receivable to Prepaid expenses and other current assets as of June 24, 2010 and March 25, 2010. Amounts of $2,180 and $3,492 were reclassified as of June 24, 2010 and March 25, 2010, respectively.

Note 2 Inventories

Inventories are stated at the lower of cost (first in, first out) or market. Raw materials and supplies include costs of nut products. Work-in-process and finished goods include labor and manufacturing overhead costs. Inventories consist of the following:

	March 24, 2011	June 24, 2010	March 25, 2010
Raw material and supplies	$ 96,382	$ 54,990	$ 76,297
Work-in-process and finished goods	61,666	59,370	48,277
Inventories	$ 158,048	$ 114,360	$ 124,574

Note 3 Acquisition of Orchard Valley Harvest, Inc.

On May 21, 2010, we acquired certain assets and assumed certain liabilities (the Acquisition) of Orchard Valley Harvest, Inc. (OVH) for a purchase price of $32,887, $115 of which was paid as part of a final working capital review that was performed during the first quarter of fiscal 2011. The purchase price may be increased up to a total of $10,079 ($5,079 of which has already been earned), contingent upon performance of the acquired business for the 2011 calendar year. The Acquisition has been accounted for as a business combination in accordance with Accounting Standards Codification (ASC) Topic 805, Business Combinations. As a result of the Acquisition, we expect to (i) expand our portfolio and market presence into the store perimeter beyond the traditional nut aisles, (ii) establish a platform to build a truly national produce nut program, and (iii) broaden our product breadth and production capabilities.

The initial OVH purchase price of $32,772 was initially allocated to the fair values of certain assets acquired and certain liabilities assumed and reported on our Annual Report on Form 10-K for the fiscal year ended June 24, 2010. We finalized the allocation of the purchase price of $32,887 (which includes the $115 paid in the first quarter of fiscal 2011 as part of the final working capital review) during the first quarter of fiscal 2011 as follows:

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Purchase Price Measurement	Amount
Accounts receivable	$ 5,049
Inventories	10,648
Other assets	2,130
Property, plant and equipment	3,408
Intangible assets, including customer relationships, non-compete agreement and brand names (See Note 4 below)	16,170
Goodwill	5,662
Accounts payable and accrued liabilities	(2,911)
Debt	(1,432)
Earn-out liability	(5,837)
Total	$ 32,887

Goodwill, which is tax deductible, arises from intangible assets that do not qualify for separate recognition and expected synergies from combining operations of OVH and our Company. There were no material contingencies recognized or unrecognized associated with the Acquisition, other than the earn-out contingency discussed below. Under terms of the Purchase Agreement by and between us and OVH dated May 5, 2010 (the Purchase Agreement), future consideration from $0 up to $10,079 may be paid, which is in addition to the $32,887 cash purchase price paid. The following table summarizes the potential earn-outs to be paid under terms of the Purchase Agreement. Net retail sales include packaged sales to the consumer distribution channel. Net sales are comprised of net retail sales plus bulk sales of products.

Earn-out Measurement	Earn-out Payment
Calendar 2010 net retail sales greater than $25,500	$ 79
Calendar 2010 net sales greater than $41,500 and calendar 2010 net retail sales greater than $36,500	5,000
Calendar 2011 net retail sales greater than $43,000	2,500
Calendar 2010 and calendar 2011 net retail sales greater than $105,000	2,500
Total	$ 10,079

The earn-out liability recorded as of June 24, 2010 represented the fair value of the expected future payments, which was estimated by applying the income approach. The fair value is based on significant inputs that are not observable in the market, which ASC 820 refers to as Level 3 inputs. Key assumptions included a discount rate of 3.25% and a probability adjusted level of future sales performance levels for each periodic performance benchmark that triggers an amount payable under the Purchase Agreement. Due to the relatively short timeframe for the earn-out payments, the potential variance of the above amounts is almost entirely dependent on such probability factors. We adjusted the probability factors at the end of the first and second quarters of fiscal 2011 based upon (i) strong net sales that exceeded previous estimates and (ii) forecasted futures sales of OVH products, and recorded $830 and $1,450, respectively, of administrative expenses for the second quarter and first twenty-six weeks of fiscal 2011. No adjustment was recorded for the third quarter of fiscal 2011. The two earn-out measurements based upon calendar 2010 net sales and net retail sales were both achieved. Consequently, $5,079 of the potential earn-out payment was earned. Under terms of the Purchase Agreement, we paid $4,135 of this amount during the third quarter of fiscal 2011 and the remaining $944 is expected to be paid in November 2011. One of the two calendar 2011earn-out measurements was amended during the third quarter of fiscal 2011 to remove the requirement that total net sales must be greater than $49,000 to achieve a certain earn-out payment.

With respect to the earn-out liability, we have established (i) a current liability of $3,152 as of March 24, 2011 related to (i) the $944 remaining earn-out payment we will be required to make related to calendar year 2010, and (ii) $2,208 related to the anticipated earn-out payment we will be required to make related to calendar year 2011. As of June 24, 2010, the total recorded earn-out liability was $5,837, $4,411 of which was classified as a current liability and $1,426 of which was classified as a long-term liability. The expected fair value of the earn-out liability will be re-measured on a quarterly basis through the quarter ending December 29, 2011. Any quarterly change in the expected fair value will require an adjustment to the contingent consideration with the corresponding charge or credit to income from operations for that quarter.

Note 4 Goodwill and Intangible Assets

Our recorded goodwill of $5,662 and $5,454 as of March 24, 2011 and June 24, 2010 relates wholly to the Acquisition which was completed during the fourth quarter of fiscal 2010. The $208 increase from June 24, 2010 to March 24, 2011 relates to final working capital adjustments made during the first quarter of fiscal 2011.

Intangible assets subject to amortization consist of the following:

	March 24, 2011	June 24, 2010	March 25, 2010
Customer relationships	$ 10,600	$ 10,600	$
Non-compete agreement	5,400	5,400	
Brand names	8,090	8,090	7,920
Total intangible assets, gross	24,090	24,090	7,920
Less accumulated amortization:			
Customer relationships	(1,281)	(146)	
Non-compete agreement	(428)	(43)	
Brand names	(7,949)	(7,780)	(7,671)
Total accumulated amortization	(9,658)	(7,969)	(7,671)
Net intangible assets	$ 14,432	$ 16,121	$ 249

Customer relationships and the non-compete agreement relate wholly to the Acquisition. Customer relationships are being amortized on a straight line basis over seven years. The non-compete agreement is being amortized based upon the expected pattern of cash flow annual benefit over a five year period. The brand names consist primarily of the Fisher brand name, which we acquired in a 1995 acquisition. The Fisher brand name became fully amortized in fiscal 2011. The remainder of the brand names relates to the Acquisition and is being amortized on a straight line basis over five years.

We review goodwill and intangible assets during the fourth quarter of our fiscal year or whenever a triggering event occurs. No such event has occurred during the first thirty-nine weeks of fiscal 2011.

Note 5 Primary Financing Facilities

On February 7, 2008, we entered into a Credit Agreement with a bank group (the Bank Lenders) providing a $117,500 revolving loan commitment and letter of credit subfacility (as amended, the Credit Facility). As of March 24, 2011, we were in compliance with all covenants under the Credit Facility. As of March 24, 2011, we had $44,650 of available credit under the Credit Facility. We would still be in compliance with all restrictive covenants under the Credit Facility if this entire amount were borrowed.

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 $36,000 (Tranche A) and the other in the amount of $9,000 (Tranche B), for an aggregate amount of $45,000 (the Mortgage Facility). As of March 24, 2011, we were in compliance with all covenants under the Mortgage Facility. We currently believe that we will be in compliance with the financial covenants in the Mortgage Facility for the foreseeable future and therefore $26,800 under Tranche A has been classified as long-term debt as of March 24, 2011. All amounts outstanding under Tranche B are classified as short-term debt as of March 24, 2011, since the Mortgage Lender has the option to use any proceeds of any sale of the site that was originally purchased by the Company in Elgin, Illinois to reduce the amount outstanding under Tranche B.

Note 6 Income Taxes

We recorded approximately $470 of discrete tax benefits during the third quarter of fiscal 2011. Consequently, we recognized a $385 income tax benefit for the thirty-nine weeks ended March 24, 2011 despite reporting income before income taxes of $241. The discrete tax items relate to the following: (i) $78 of net tax benefit primarily related to favorable adjustments for research and development and other state credits than was previously estimated in our prior year tax provision, offset by other unfavorable provision adjustments; (ii) $180 of tax benefit related to release of state valuation allowance due to change in state law and our expected utilization of state investment tax credits; (iii) $74 of tax benefit due to favorable resolution of state tax audit; and (iv) $138 of state tax benefit related to out of period adjustment for excess state tax over book depreciation available in future periods.

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At the beginning of fiscal year 2011, we had approximately $700 of state (net of the federal effect) net operating loss (NOL) carryforwards for income tax purposes. The state NOL carryforwards relate to losses generated during the fiscal years ended June 26, 2008, June 28, 2007 and June 29, 2006, and generally have a carryforward period of approximately twelve years before expiration. We believe that the state NOL carryforwards will be fully utilized before each respective expiration.

As of March 24, 2011, 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 Consolidated Statement of Operations. We file income tax returns with federal and state tax authorities within the United States of America. The Internal Revenue Service audited our tax return for fiscal 2004, and there was no material impact to our Company. The Illinois Department of Revenue has completed auditing our tax returns through fiscal 2007, and there was no material impact to our Company. No other tax jurisdictions are material to us.

As of March 24, 2011 and since June 24, 2010, 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 7 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 24, 2011	March 25,	March 24,	March 25,