SANFILIPPO JOHN B & SON INC
Form 10-Q
February 02, 2009

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 December 25, 2008

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, 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 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 þ

(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 February 2, 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 DECEMBER 25, 2008
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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 25, 2008	**December 27, 2007**	**December 25, 2008**	**December 27, 2007**
Net sales	$ 177,755	$ 176,990	$ 312,579	$ 309,798
Cost of sales	153,209	153,653	273,849	274,661
Gross profit	24,546	23,337	38,730	35,137
Operating expenses:				
Selling expenses	10,379	10,273	18,362	18,497
Administrative expenses	5,106	4,995	9,719	9,666
Restructuring expenses		1,403	(332)	1,403
Total operating expenses	15,485	16,671	27,749	29,566
Income from operations	9,061	6,666	10,981	5,571
Other expense:				
Interest expense ($273, $277, $548 and $556 to related parties)	(2,099)	(2,647)	(4,242)	(5,377)
Rental and miscellaneous income (expense), net	(411)	67	(605)	52
Total other expense, net	(2,510)	(2,580)	(4,847)	(5,325)
Income before income taxes	6,551	4,086	6,134	246
Income tax expense	712	569	679	118
Net income	$ 5,839	$ 3,517	$ 5,455	$ 128
Other comprehensive income, net of tax:				
Adjustment for prior service cost and actuarial gain amortization related to retirement plan	103	97	206	194
Net comprehensive income	$ 5,942	$ 3,614	$ 5,661	$ 322
Basic and diluted earnings per common share	$ 0.55	$ 0.33	$ 0.51	$ 0.01

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)

	December 25, 2008	June 26, 2008	December 27, 2007
ASSETS			
CURRENT ASSETS:			
Cash	$ 6,579	$ 716	$ 20,127
Accounts receivable, less allowances of $2,829, $2,217 and $6,082	48,350	34,424	44,057
Inventories	128,296	127,032	146,649
Income taxes receivable		222	272
Deferred income taxes	2,722	2,595	2,000
Prepaid expenses and other current assets	2,448	1,592	1,736
Asset held for sale		5,569	5,569
TOTAL CURRENT ASSETS	188,395	172,150	220,410
PROPERTY, PLANT AND EQUIPMENT:			
Land	9,463	9,463	9,463
Buildings	100,008	99,883	98,923
Machinery and equipment	148,212	147,631	146,361
Furniture and leasehold improvements	6,213	6,247	6,239
Vehicles	667	724	1,372
Construction in progress	926	1,411	5,260
	265,489	265,359	267,618
Less: Accumulated depreciation	128,033	123,626	122,070
	137,456	141,773	145,548
Rental investment property, less accumulated depreciation of $3,110, $2,660 and $2,211	27,021	27,471	27,920
Development agreement	5,569		
TOTAL PROPERTY, PLANT AND EQUIPMENT	170,046	169,204	173,468
Cash surrender value of officers life insurance and other assets	8,256	8,435	6,827
Brand name, less accumulated amortization of $7,138, $6,925 and $6,712	782	995	1,208
TOTAL ASSETS	$ 367,479	$ 350,784	$ 401,913

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)

	December 25, 2008	June 26, 2008	December 27, 2007
LIABILITIES & STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Revolving credit facility borrowings	$ 55,141	$ 67,948	$ 65,283
Current maturities of long-term debt, including related party debt of $225, $216 and $208	11,948	12,251	16,848
Accounts payable, including related party payables of $592, $449 and $276	48,207	25,355	60,614
Income taxes payable	31		
Book overdraft	6,409	4,298	7,898
Accrued payroll and related benefits	6,354	7,740	7,492
Accrued workers compensation	4,581	4,838	6,481
Accrued restructuring		1,287	1,403
Other accrued expenses	7,291	5,570	6,568
TOTAL CURRENT LIABILITIES	139,962	129,287	172,587
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities, including related party debt of $13,529, $13,644 and $13,754	50,910	52,356	54,257
Retirement plan	8,252	8,174	8,962
Deferred income taxes	3,398	2,595	2,541
Other	1,412		
TOTAL LONG-TERM LIABILITIES	63,972	63,125	65,760
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	100,917	100,810	100,588
Retained earnings	66,713	61,853	67,938
Accumulated other comprehensive loss	(2,988)	(3,194)	(3,863)
Treasury stock, at cost; 117,900 shares of Common Stock	(1,204)	(1,204)	(1,204)

TOTAL STOCKHOLDERS EQUITY		163,545		158,372		163,566
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$	367,479	$	350,784	$	401,913

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 25, 2008	**December 27, 2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,455	$ 128
Depreciation and amortization	8,090	8,035
Loss (gain) on disposition of properties	145	(74)
Deferred income tax expense	676	75
Stock-based compensation expense	71	175
Change in current assets and current liabilities:		
Accounts receivable, net	(13,926)	(8,034)
Inventories	(1,264)	(12,490)
Prepaid expenses and other current assets	(856)	(586)
Accounts payable	22,852	39,350
Accrued expenses	(1,209)	3,822
Income taxes payable/receivable	253	6,441
Other operating assets	601	(1,502)
Net cash provided by operating activities	20,888	35,340
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,508)	(8,582)
Proceeds from disposition of properties	90	98
Cash surrender value of officers life insurance	(198)	(196)
Net cash used in investing activities	(2,616)	(8,680)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under revolving credit facility	87,091	18,814
Repayments of revolving credit borrowings	(99,898)	(26,812)
Principal payments on long-term debt	(1,749)	(3,855)
Increase (decrease) in book overdraft	2,111	2,883
Issuance of Common Stock under option plans	36	72
Tax benefit of stock options exercised		6
Net cash used in financing activities	(12,409)	(8,892)
NET INCREASE IN CASH	5,863	17,768
Cash, beginning of period	716	2,359

Cash, end of period	$	6,579	$	20,127
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 term Company refers collectively 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 second quarter of fiscal 2009 are to the quarter ended December 25, 2008. References herein to the first twenty-six weeks of fiscal 2009 are to the twenty-six weeks ended December 25, 2008. References herein to the second quarter of fiscal 2008 are to the quarter ended December 27, 2007. References herein to the first twenty-six weeks of fiscal 2008 are to the twenty-six weeks ended December 27, 2007.

In the opinion of our management, the accompanying statements present fairly 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 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 accounting principles generally accepted 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 December 25, 2008, June 26, 2008 and December 27, 2007 are $886, $1,000 and $2,921, respectively, relating to workers compensation excess claim recovery.

Note 3 Inventories

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

	December 25, 2008	June 26, 2008	December 27, 2007
Raw material and supplies	$ 74,862	$ 59,770	$ 82,460
Work-in-process and finished goods	53,434	67,262	64,189
Inventories	$ 128,296	$ 127,032	$ 146,649

Note 4 Income Taxes

As of December 25, 2008, we had $2.3 million of state and $1.8 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 between 10 and 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, we have eliminated the portion of our valuation allowance related to our federal NOL of $1.6 million during the first twenty-six weeks of fiscal 2009, which was the primary factor in our effective tax rate varying from the federal statutory rate. This decrease in the estimated valuation allowance is related to the change in our currently anticipated operating results for the remainder of fiscal 2009. 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 state NOL carryforwards. Consequently, we have provided a valuation allowance of $2.1 million for state jurisdiction NOL carryforwards related to the realization of such NOL carryforwards as of December 25, 2008. We will consider the need for, and the amount of, the valuation allowance in the future as actual operating results in state jurisdictions are achieved.

As of December 25, 2008, 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 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 recently 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 December 25, 2008, 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 shares outstanding used in computing earnings per share:

	For the Quarter Ended		For the Twenty-six Weeks Ended	
	December 25, 2008	December 27, 2007	December 25, 2008	December 27, 2007
Weighted average shares outstanding basic	10,618,587	10,609,798	10,616,356	10,606,419
Effect of dilutive securities:				
Stock options and restricted stock units	8,316	23,988	27,104	29,396
Weighted average shares outstanding diluted	10,626,903	10,633,786	10,643,460	10,635,815

356,875 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, due to the exercise price exceeding the average market price of the Common Stock. 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 twenty-six weeks ended December 25, 2008, due to the exercise price exceeding the average market price of the Common Stock. 379,125 stock options with a weighted average exercise price of $12.76 were excluded from the computation of diluted earnings per share for the quarter and twenty-six weeks ended December 27, 2007, due to the exercise price exceeding the average market price of the Common Stock.

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.

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The following is a summary of stock option activity for the first twenty-six 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 December 25, 2008	380,440	$	12.00	5.43	$	5
Exercisable, at December 25, 2008	278,065	$	12.74	4.56	$	5

No stock options were granted during the first twenty-six weeks of fiscal 2009. The weighted average grant date fair value of stock options granted during the first twenty-six weeks of fiscal 2008 was $4.46. The total intrinsic value of options exercised during the first twenty-six weeks of fiscal 2009 and fiscal 2008 was $1 and $16, respectively. Compensation expense attributable to stock-based compensation during the first twenty-six weeks of fiscal 2009 and fiscal 2008 was $71 and $175, respectively. As of December 25, 2008, there was $718 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 1.44 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 27, 2007
Weighted average expected stock-price volatility	54.29%
Average risk-free rate	3.71%
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 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 Twenty-six Weeks Ended	
	December 25, 2008	December 27, 2007	December 25, 2008	December 27, 2007

Service cost	$ 34	$ 34	$ 69	$ 69
Interest cost	141	144	281	288
Amortization of prior service cost	240	239	479	478
Amortization of gain	(81)	(90)	(162)	(180)
Net periodic benefit cost				