SANFILIPPO JOHN B & SON INC
Form 10-Q
November 01, 2018
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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 September 27, 2018

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 (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, or a smaller reporting 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 October 25, 2018, 8,747,575 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 SEPTEMBER 27, 2018

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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 September 27, 2018	For the Quarter Ended September 28, 2017
Net sales	$ 204,288	$ 215,664
Cost of sales	171,334	180,545
Gross profit	32,954	35,119
Operating expenses:		
Selling expenses	14,071	10,945
Administrative expenses	8,831	6,559
Total operating expenses	22,902	17,504
Income from operations	10,052	17,615
Other expense:		
Interest expense including $309 and $194 to related parties	879	781
Rental and miscellaneous expense, net	289	622
Other expense	487	492
Total other expense, net	1,655	1,895
Income before income taxes	8,397	15,720
Income tax expense	1,791	5,009
Net income	$ 6,606	$ 10,711
Other comprehensive income:		
Amortization of prior service cost and actuarial loss included in Other expense	263	279
Income tax expense related to pension adjustments	(66)	(108)
Other comprehensive income, net of tax:	197	171
Comprehensive income	$ 6,803	$ 10,882

Net income per common share-basic	$	0.58	$	0.94
Net income per common share-diluted	$	0.57	$	0.94

The accompanying unaudited 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 share and per share amounts)

	September 27, 2018	June 28, 2018	September 28, 2017
ASSETS			
CURRENT ASSETS:			
Cash	$ 1,215	$ 1,449	$ 869
Accounts receivable, less allowance for doubtful accounts of $263, $270 and $273	58,887	65,426	71,576
Inventories	181,031	174,362	165,304
Prepaid expenses and other current assets	4,190	6,645	5,416
TOTAL CURRENT ASSETS	245,323	247,882	243,165
PROPERTY, PLANT AND EQUIPMENT:			
Land	9,285	9,285	9,285
Buildings	109,110	108,540	107,278
Machinery and equipment	199,871	198,321	194,449
Furniture and leasehold improvements	5,015	5,015	4,928
Vehicles	526	526	535
Construction in progress	7,201	2,618	5,287
	331,008	324,305	321,762
Less: Accumulated depreciation	220,376	217,689	213,252
	110,632	106,616	108,510
Rental investment property, less accumulated depreciation of $10,629, $10,431 and $9,837	18,264	18,462	19,056
TOTAL PROPERTY, PLANT AND EQUIPMENT	128,896	125,078	127,566
Cash surrender value of officers life insurance and other assets	9,102	10,565	9,541
Deferred income taxes	5,644	5,024	9,668
Goodwill	9,650	9,650	
Intangible assets, net	16,812	17,654	
TOTAL ASSETS	$ 415,427	$ 415,853	$ 389,940

The accompanying unaudited 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 share and per share amounts)

	September 27, 2018	June 28, 2018	September 28, 2017
LIABILITIES & STOCKHOLDERS EQUITY			
CURRENT LIABILITIES:			
Revolving credit facility borrowings	$ 51,941	$ 31,278	$ 36,454
Current maturities of long-term debt, including related party debt of $4,350, $4,341 and $482 and net of unamortized debt issuance costs of $42, $45 and $53	7,212	7,169	3,429
Accounts payable	59,848	60,340	54,544
Bank overdraft	1,121	2,062	1,484
Accrued payroll and related benefits	10,149	6,415	8,065
Other accrued expenses	9,731	9,929	15,009
TOTAL CURRENT LIABILITIES	140,002	117,193	118,985
LONG-TERM LIABILITIES:			
Long-term debt, less current maturities, including related party debt of $14,416, $15,507 and $10,461 and net of unamortized debt issuance costs of $69, $79 and $111	25,537	27,356	24,350
Retirement plan	21,501	21,288	21,195
Other	7,040	7,014	6,876
TOTAL LONG-TERM LIABILITIES	54,078	55,658	52,421
TOTAL LIABILITIES	194,080	172,851	171,406
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 8,865,475, 8,865,475 and 8,817,883 shares issued	89	89	88
Capital in excess of par value	120,568	119,952	118,326
Retained earnings	104,852	127,320	105,531
Accumulated other comprehensive loss	(2,984)	(3,181)	(4,233)

Treasury stock, at cost; 117,900 shares of Common Stock		(1,204)		(1,204)		(1,204)
TOTAL STOCKHOLDERS EQUITY		221,347		243,002		218,534
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$	415,427	$	415,853	$	389,940

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

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JOHN B. SANFILIPPO & SON, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

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

	Class A Common Stock		Common Stock		Capital in		Accumulated Other		
	Shares	Amount	Shares	Amount	Excess of Par Value	Retained Earnings	Comprehensive Loss	Treasury Stock	Total
Balance, June 28, 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 ($2.55 per share)						(29,074)			(29,074)
Pension liability amortization, net of income tax expense of $66							197		197
Stock-based compensation expense					616				616
Balance, September 27, 2018	2,597,426	$ 26	8,865,475	$ 89	$ 120,568	$ 104,852	$ (2,984)	$ (1,204)	$ 221,347

	Class A Common Stock		Common Stock		Capital in		Accumulated Other		
	Shares	Amount	Shares	Amount	Excess of Par Value	Retained Earnings	Comprehensive Loss	Treasury 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
					538				538

Stock-based compensation expense									
Balance, September 28, 2017	2,597,426	$ 26	8,817,883	$ 88	$ 118,326	$ 105,531	$ (4,233)	$ (1,204)	$ 218,534

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JOHN B. SANFILIPPO & SON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	For the Quarter Ended September 27, 2018	For the Quarter Ended September 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,606	$ 10,711
Depreciation and amortization	4,168	3,325
Loss on disposition of assets, net	23	165
Deferred income tax benefit	(620)	(573)
Stock-based compensation expense	616	538
Change in assets and liabilities:		
Accounts receivable, net	6,536	(6,746)
Inventories	(6,669)	17,116
Prepaid expenses and other current assets	1,094	(1,244)
Accounts payable	(1,256)	2,682
Accrued expenses	2,451	(7,254)
Income taxes payable	2,446	4,308
Other long-term assets and liabilities	(132)	37
Other, net	412	372
Net cash provided by operating activities	15,675	23,437
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(4,754)	(2,876)
Other	(14)	22
Net cash used in investing activities	(4,768)	(2,854)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net short-term borrowings	20,663	6,998
Principal payments on long-term debt	(1,789)	(865)
(Decrease) Increase in bank overdraft	(941)	552
Dividends paid	(29,074)	(28,370)
Issuance of Common Stock under equity award plans		16
Net cash used in financing activities	(11,141)	(21,669)
NET DECREASE IN CASH	(234)	(1,086)
Cash, beginning of period	1,449	1,955

Cash, end of period	$ 1,215	$ 869

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 first quarter of fiscal 2019 and fiscal 2018 are to the quarters ended September 27, 2018 and September 28, 2017, 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 98% 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 98% of our revenues, the timing of revenue recognition requires little 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 toward 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.

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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 September 27, 2018, June 28, 2018 and September 28, 2017 were $196, $336, and $873, 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:

	For the Quarter Ended	
Distribution Channel	**September 27, 2018**	**September 28, 2017**
Consumer	$ 139,691	$ 135,968
Commercial Ingredients	36,955	36,409
Contract Packaging	27,642	43,287
Total	$ 204,288	$ 215,664

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 first quarter of fiscal 2018 is as follows:

	Quarter-Ended September 28, 2017 as previously reported	Impact of Adoption	As Adjusted
Net sales	$ 214,791	$ 873	$ 215,664
Gross profit	34,840	279	35,119
Income from operations	17,336	279	17,615
Net income	$ 10,432	$ 279	$ 10,711
Earnings per share-basic	$ 0.92	$ 0.03	$ 0.94
Earnings per share-diluted	$ 0.91	$ 0.03	$ 0.94

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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:

	September 27, 2018	June 28, 2018	September 28, 2017
Raw material and supplies	$ 55,681	$ 73,209	$ 50,086
Work-in-process and finished goods	125,350	101,153	115,218
Total	$ 181,031	$ 174,362	$ 165,304

Note 4 Goodwill and Intangible Assets

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

	September 27, 2018	June 28, 2018	September 28, 2017
Customer relationships	$ 21,100	$ 21,100	$ 10,600
Brand names	16,990	16,990	8,090
Non-compete agreement	270	270	
	38,360	38,360	18,690
Less accumulated amortization:			
Customer relationships	(12,838)	(12,182)	(10,600)
Brand names	(8,665)	(8,492)	(8,090)
Non-compete agreement	(45)	(32)	
	(21,548)	(20,706)	(18,690)
Net intangible assets	$ 16,812	$ 17,654	$

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

Total amortization expense related to intangible assets, which is a component of Administrative expense, was $842 for the quarter ended September 27, 2018. Amortization expense for the remainder of fiscal 2019 is expected to be approximately $2,186 and expected amortization expense the next five fiscal years is as follows:

Fiscal year ending

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 net 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 quarter ended September 27, 2018.

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.

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At September 27, 2018, we had $62,309 of available credit under the Credit Facility which reflects borrowings of $51,941 and reduced availability as a result of $3,250 in outstanding letters of credit. As of September 27, 2018, 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 September 27, 2018	For the Quarter Ended September 28, 2017
Weighted average number of shares outstanding basic	11,406,009	11,351,307
Effect of dilutive securities:		
Stock options and restricted stock units	85,922	90,861
Weighted average number of shares outstanding diluted	11,491,931	11,442,168

There were no anti-dilutive awards excluded from the computation of diluted earnings per share for either period presented.

Note 7 Stock-Based Compensation Plans

During the quarter ended September 27, 2018 there was no significant stock option or restricted stock unit activity.

Compensation expense attributable to stock-based compensation during the first quarter of fiscal 2019 and fiscal 2018 was $616 and $538, respectively. As of September 27, 2018, there was $2,892 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 1.2 years.

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 September 27, 2018	For the Quarter Ended September 28, 2017
Service cost	$ 152	$ 152
Interest cost	224	213
Amortization of prior service cost	239	239

Amortization of loss	24	40
Net periodic benefit cost	$ 639	$ 644

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.

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Note 9 Accumulated Other Comprehensive Loss

The table below sets forth the changes to accumulated other comprehensive loss (AOCL) for the quarter ended September 27, 2018 and September 28, 2017. These changes are all related to our defined benefit pension plan.

Changes to AOCL [(a)]	For the Quarter Ended September 27, 2018	For the Quarter Ended September 28, 2017
Balance at beginning of period	$ (3,181)	$ (4,404)
Other comprehensive income before reclassifications		
Amounts reclassified from accumulated other comprehensive loss	263	279
Tax effect	(66)	(108)
Net current-period other comprehensive income	197	171
Balance at end of period	$ (2,984)	$ (4,233)

[(a)] Amounts in parenthesis indicate debits/expense.

The reclassifications out of AOCL for the quarter ended September 27, 2018 and September 28, 2017 were as follows:

Reclassifications from AOCL to earnings [(b)]	For the Quarter Ended September 27, 2018	For the Quarter Ended September 28, 2017	Affected line item in the Consolidated Statements of Comprehensive Income
Amortization of defined benefit pension items:			
Unrecognized prior service cost	$ (239)	$ (239)	Other expense
Unrecognized net loss	(24)	(40)	Other expense
Total before tax	(263)	(279)	
Tax effect	66	108	Income tax expense
Amortization of defined pension items, net of tax	$ (197)	$ (171)	

[(b)] 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.

We were subject to a class-action complaint for an employment related matter. Mediation for this matter occurred in fiscal 2017. In August 2017, 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

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), and because of 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:

	September 27, 2018	June 28, 2018	September 28, 2017
Carrying value of long-term debt:	$ 32,860	$ 34,649	$ 27,943
Fair value of long-term debt:	31,600	33,482	28,355

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 of the Squirrel Brand business 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 September 27, 2018 was $8,306. Interest paid on the Promissory Note for the quarter ended September 27, 2018 was $123.

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.

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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 SEC 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 financial reporting for the current quarter ended September 27, 2018. 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 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*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. 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