

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 **June 29, 2019**

or



Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number **001-32316**

B&G FOODS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3918742

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

Four Gatehall Drive, Parsippany, New Jersey

(Address of principal executive offices)

07054

(Zip Code)

Registrant's telephone number, including area code: **(973) 401-6500**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	BGS	New York Stock Exchange

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 (§232.405 of this chapter) 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, a smaller reporting company or an emerging growth 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.

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 July 30, 2019, the registrant had 65,375,514 shares of common stock, par value \$0.01 per share, issued and outstanding.

**B&G Foods, Inc. and Subsidiaries
Index**

	<u>Page No.</u>
PART I FINANCIAL INFORMATION	1
Item 1. Financial Statements (Unaudited)	1
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Changes in Stockholders' Equity	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Item 3. Quantitative and Qualitative Disclosures About Market Risk	47
Item 4. Controls and Procedures	48
PART II OTHER INFORMATION	49
Item 1. Legal Proceedings	49
Item 1A. Risk Factors	49
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	49
Item 3. Defaults Upon Senior Securities	49
Item 4. Mine Safety Disclosures	49
Item 5. Other Information	49
Item 6. Exhibits	49
SIGNATURE	50

Forward-Looking Statements

This report includes forward-looking statements, including, without limitation, the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The words “believes,” “belief,” “expects,” “projects,” “intends,” “anticipates,” “assumes,” “could,” “should,” “estimates,” “potential,” “seek,” “predict,” “may,” “will” or “plans” and similar references to future periods are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by any forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following:

- our substantial leverage;
- the effects of rising costs for our raw materials, packaging and ingredients;
- crude oil prices and their impact on distribution, packaging and energy costs;
- our ability to successfully implement sales price increases and cost saving measures to offset any cost increases;
- intense competition, changes in consumer preferences, demand for our products and local economic and market conditions;
- our continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets, to broaden brand portfolios in order to compete effectively with lower priced products and in markets that are consolidating at the retail and manufacturing levels and to improve productivity;
- the risks associated with the expansion of our business;
- our possible inability to identify new acquisitions or to integrate recent or future acquisitions or our failure to realize anticipated revenue enhancements, cost savings or other synergies;
- tax reform and legislation, including the effects of the U.S. Tax Cuts and Jobs Act;
- our ability to access the credit markets and our borrowing costs and credit ratings, which may be influenced by credit markets generally and the credit ratings of our competitors;
- unanticipated expenses, including, without limitation, litigation or legal settlement expenses;
- the effects of currency movements of the Canadian dollar and the Mexican peso as compared to the U.S. dollar;
- the effects of international trade disputes, tariffs, quotas, and other import or export restrictions on our international procurement, sales and operations;
- future impairments of our goodwill and intangible assets;
- our ability to successfully complete the implementation and operate a new enterprise resource planning (ERP) system;
- our ability to protect information systems against, or effectively respond to, a cybersecurity incident or other disruption;
- our sustainability initiatives and changes to environmental laws and regulations;
- other factors that affect the food industry generally, including:
 - recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations and the possibility that consumers could lose confidence in the safety and quality of certain food products;
 - competitors’ pricing practices and promotional spending levels;
 - fluctuations in the level of our customers’ inventories and credit and other business risks related to our customers operating in a challenging economic and competitive environment; and

- the risks associated with third-party suppliers and co-packers, including the risk that any failure by one or more of our third-party suppliers or co-packers to comply with food safety or other laws and regulations may disrupt our supply of raw materials or certain finished goods products or injure our reputation; and
- other factors discussed elsewhere in this report and in our other public filings with the SEC, including under Part I, Item 1A, “Risk Factors,” in our 2018 Annual Report on Form 10-K.

Developments in any of these areas could cause our results to differ materially from results that have been or may be projected by us or on our behalf.

All forward-looking statements included in this report are based on information available to us on the date of this report. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in this report.

We caution that the foregoing list of important factors is not exclusive. There may be other factors that may cause our actual results to differ materially from the forward-looking statements, including factors disclosed elsewhere in this section of this report. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties. We urge investors not to unduly rely on forward-looking statements contained in this report.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

B&G Foods, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	June 29, 2019	December 29, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,911	\$ 11,648
Trade accounts receivable, net	136,493	151,707
Inventories	404,754	401,355
Prepaid expenses and other current assets	26,223	19,988
Income tax receivable	10,056	1,398
Total current assets	597,437	586,096
Property, plant and equipment, net of accumulated depreciation of \$249,862 and \$230,200 as of June 29, 2019 and December 29, 2018, respectively	305,322	282,553
Operating lease right-of-use assets	42,059	—
Goodwill	597,827	584,435
Other intangibles, net	1,622,477	1,595,569
Other assets	1,083	1,206
Deferred income taxes	5,562	4,940
Total assets	<u>\$ 3,171,767</u>	<u>\$ 3,054,799</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 113,536	\$ 140,000
Accrued expenses	43,240	55,660
Operating lease liabilities, current portion	9,915	—
Income tax payable	410	31,624
Dividends payable	31,053	31,178
Total current liabilities	198,154	258,462
Long-term debt	1,802,626	1,635,881
Deferred income taxes	243,754	235,902
Long-term operating lease liabilities, net of current portion	35,421	—
Other liabilities	23,452	24,505
Total liabilities	2,303,407	2,154,750
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.01 par value per share. Authorized 125,000,000 shares; 65,375,514 and 65,638,701 shares issued and outstanding as of June 29, 2019 and December 29, 2018, respectively	654	656
Additional paid-in capital	46,284	116,339
Accumulated other comprehensive loss	(20,176)	(23,502)
Retained earnings	841,598	806,556
Total stockholders' equity	868,360	900,049
Total liabilities and stockholders' equity	<u>\$ 3,171,767</u>	<u>\$ 3,054,799</u>

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales	\$ 371,197	\$ 388,378	\$ 783,931	\$ 820,107
Cost of goods sold	279,330	307,205	603,985	635,578
Gross profit	91,867	81,173	179,946	184,529
Operating expenses:				
Selling, general and administrative expenses	39,856	37,272	78,153	79,840
Amortization expense	4,601	4,609	9,092	9,218
Operating income	47,410	39,292	92,701	95,471
Other income and expenses:				
Interest expense, net	23,179	27,607	46,253	55,913
Loss on extinguishment of debt	—	546	—	3,324
Other (income) expense	(525)	388	(783)	(1,666)
Income before income tax expense	24,756	10,751	47,231	37,900
Income tax expense	6,505	2,775	12,189	9,377
Net income	\$ 18,251	\$ 7,976	\$ 35,042	\$ 28,523
Weighted average shares outstanding:				
Basic	65,341	66,307	65,464	66,412
Diluted	65,391	66,354	65,504	66,535
Earnings per share:				
Basic	\$ 0.28	\$ 0.12	\$ 0.54	\$ 0.43
Diluted	\$ 0.28	\$ 0.12	\$ 0.53	\$ 0.43
Cash dividends declared per share	\$ 0.475	\$ 0.475	\$ 0.950	\$ 0.940

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(In thousands)
(Unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>June 29, 2019</u>	<u>June 30, 2018</u>	<u>June 29, 2019</u>	<u>June 30, 2018</u>
Net income	\$ 18,251	\$ 7,976	\$ 35,042	\$ 28,523
Other comprehensive income:				
Foreign currency translation adjustments	1,543	(5,659)	3,001	(2,527)
Amortization of unrecognized prior service cost and pension deferrals, net of tax	163	138	325	249
Other comprehensive income (loss)	1,706	(5,521)	3,326	(2,278)
Comprehensive income	<u>\$ 19,957</u>	<u>\$ 2,455</u>	<u>\$ 38,368</u>	<u>\$ 26,245</u>

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
As of June 29, 2019
(In thousands, except share and per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 29, 2018	65,638,701	\$ 656	\$ 116,339	\$ (23,502)	\$ 806,556	\$ 900,049
Foreign currency translation	—	—	—	1,458	—	1,458
Change in pension benefit (net of \$53 of income taxes)	—	—	—	162	—	162
Net income	—	—	—	—	16,791	16,791
Share-based compensation	—	—	580	—	—	580
Issuance of common stock for share-based compensation	65,928	1	(906)	—	—	(905)
Repurchase of common stock	(407,022)	(4)	(9,996)	—	—	(10,000)
Dividends declared on common stock, \$0.475 per share	—	—	(31,016)	—	—	(31,016)
Balance at March 30, 2019	<u>65,297,607</u>	<u>\$ 653</u>	<u>\$ 75,001</u>	<u>\$ (21,882)</u>	<u>\$ 823,347</u>	<u>\$ 877,119</u>
Foreign currency translation	—	—	—	1,543	—	1,543
Change in pension benefit (net of \$52 of income taxes)	—	—	—	163	—	163
Net income	—	—	—	—	18,251	18,251
Share-based compensation	77,907	1	2,336	—	—	2,337
Dividends declared on common stock, \$0.475 per share	—	—	(31,053)	—	—	(31,053)
Balance at June 29, 2019	<u>65,375,514</u>	<u>\$ 654</u>	<u>\$ 46,284</u>	<u>\$ (20,176)</u>	<u>\$ 841,598</u>	<u>\$ 868,360</u>

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
As of June 30, 2018
(In thousands, except share and per share data)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 30, 2017	66,499,044	\$ 665	\$ 266,789	\$ (20,756)	\$ 634,121	\$ 880,819
Foreign currency translation	—	—	—	3,132	—	3,132
Change in pension benefit (net of \$36 of income taxes)	—	—	—	111	—	111
Net income	—	—	—	—	20,547	20,547
Share-based compensation	—	—	838	—	—	838
Issuance of common stock for share-based compensation	94,076	1	(1,834)	—	—	(1,833)
Repurchase of common stock	—	—	—	—	—	—
Dividends declared on common stock, \$0.475 per share	—	—	(30,966)	—	—	(30,966)
Balance at March 31, 2018	<u>66,593,120</u>	<u>\$ 666</u>	<u>\$ 234,827</u>	<u>\$ (17,513)</u>	<u>\$ 654,668</u>	<u>\$ 872,648</u>
Foreign currency translation	—	—	—	(5,659)	—	(5,659)
Change in pension benefit (net of \$46 of income taxes)	—	—	—	138	—	138
Net income	—	—	—	—	7,976	7,976
Share-based compensation	—	—	1,759	—	—	1,759
Issuance of common stock for share-based compensation	33,920	—	—	—	—	—
Repurchase of common stock	(694,749)	(7)	(18,523)	—	—	(18,530)
Dividends declared on common stock, \$0.475 per share	—	—	(31,318)	—	—	(31,318)
Balance at June 30, 2018	<u>65,932,291</u>	<u>\$ 659</u>	<u>\$ 186,745</u>	<u>\$ (23,034)</u>	<u>\$ 662,644</u>	<u>\$ 827,014</u>

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018
Cash flows from operating activities:		
Net income	\$ 35,042	\$ 28,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,420	26,407
Amortization of operating lease right-of-use assets	5,377	—
Amortization of deferred debt financing costs and bond discount/premium	1,745	2,976
Deferred income taxes	7,240	7,511
Write-off of property, plant, and equipment	13	29
Loss on extinguishment of debt	—	3,324
Share-based compensation expense	1,964	2,597
Changes in assets and liabilities, net of effects of businesses acquired:		
Trade accounts receivable	21,246	2,397
Inventories	10,251	51,744
Prepaid expenses and other current assets	(5,035)	(4,320)
Income tax receivable/payable	(39,759)	51
Other assets	122	161
Trade accounts payable	(32,335)	(6,374)
Accrued expenses	(16,749)	(11,647)
Other liabilities	(696)	1,425
Net cash provided by operating activities	16,846	104,804
Cash flows from investing activities:		
Capital expenditures	(18,148)	(17,208)
Payments for acquisition of businesses, net of cash acquired	(82,430)	—
Net cash used in investing activities	(100,578)	(17,208)
Cash flows from financing activities:		
Repayments of long-term debt	—	(150,000)
Repayments of borrowings under revolving credit facility	(95,000)	—
Borrowings under revolving credit facility	260,000	—
Dividends paid	(62,194)	(61,888)
Payments for repurchase of common stock, net	(10,000)	(18,529)
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	(905)	(1,832)
Net cash provided by (used in) financing activities	91,901	(232,249)
Effect of exchange rate fluctuations on cash and cash equivalents	94	987
Net decrease in cash and cash equivalents	8,263	(143,666)
Cash and cash equivalents at beginning of period	11,648	206,506
Cash and cash equivalents at end of period	<u>\$ 19,911</u>	<u>\$ 62,840</u>
Supplemental disclosures of cash flow information:		
Cash interest payments	<u>\$ 45,302</u>	<u>\$ 53,025</u>
Cash income tax payments	<u>\$ 44,710</u>	<u>\$ 1,628</u>
Non-cash investing and financing transactions:		
Dividends declared and not yet paid	<u>\$ 31,053</u>	<u>\$ 31,318</u>
Accruals related to purchases of property, plant and equipment	<u>\$ 2,142</u>	<u>\$ 206</u>
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 533</u>	<u>\$ —</u>

See Notes to Consolidated Financial Statements.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

(1) Nature of Operations

B&G Foods, Inc. is a holding company whose principal assets are the shares of capital stock of its subsidiaries. Unless the context requires otherwise, references in this report to “B&G Foods,” “our company,” “we,” “us” and “our” refer to B&G Foods, Inc. and its subsidiaries. Our financial statements are presented on a consolidated basis.

We operate in a single industry segment and manufacture, sell and distribute a diverse portfolio of high-quality shelf-stable and frozen foods across the United States, Canada and Puerto Rico. Our products include frozen and canned vegetables, oatmeal and other hot cereals, fruit spreads, canned meats and beans, bagel chips, spices, seasonings, hot sauces, wine vinegar, maple syrup, molasses, salad dressings, pizza crusts, Mexican-style sauces, dry soups, taco shells and kits, salsas, pickles, peppers, tomato-based products, cookies and crackers, baking powder, baking soda, corn starch, nut clusters and other specialty products. Our products are marketed under many recognized brands, including *Ac’cent*, *B&G*, *B&M*, *Back to Nature*, *Baker’s Joy*, *Bear Creek Country Kitchens*, *Brer Rabbit*, *Canoleo*, *Cary’s*, *Clabber Girl*, *Cream of Rice*, *Cream of Wheat*, *Davis*, *Devonsheer*, *Don Pepino*, *Durkee*, *Emeril’s*, *Grandma’s Molasses*, *Green Giant*, *JJ Flats*, *Joan of Arc*, *Las Palmas*, *Le Sueur*, *MacDonald’s*, *Mama Mary’s*, *Maple Grove Farms of Vermont*, *McCann’s*, *Molly McButter*, *Mrs. Dash*, *New York Flatbreads*, *New York Style*, *Old London*, *Ortega*, *Polaner*, *Red Devil*, *Regina*, *Rumford*, *Sa-són*, *Sclafani*, *SnackWell’s*, *Spice Islands*, *Spring Tree*, *Sugar Twin*, *Tone’s*, *Trappey’s*, *TrueNorth*, *Underwood*, *Vermont Maid*, *Victoria*, *Weber* and *Wright’s*. We also sell and distribute *Static Guard*, a household product brand. We compete in the retail grocery, foodservice, specialty, private label, club and mass merchandiser channels of distribution. We sell and distribute our products directly and via a network of independent brokers and distributors to supermarket chains, foodservice outlets, mass merchants, warehouse clubs, non-food outlets and specialty distributors.

(2) Summary of Significant Accounting Policies

Fiscal Year

Typically, our fiscal quarters and fiscal year consist of 13 and 52 weeks, respectively, ending on the Saturday closest to December 31 in the case of our fiscal year and fourth fiscal quarter, and on the Saturday closest to the end of the corresponding calendar quarter in the case of our fiscal quarters. As a result, a 53rd week is added to our fiscal year every five or six years. In a 53-week fiscal year our fourth fiscal quarter contains 14 weeks. Our fiscal year ending December 28, 2019 (fiscal 2019) and our fiscal year ended December 29, 2018 (fiscal 2018) each contain 52 weeks. Each quarter of fiscal 2019 and 2018 contains 13 weeks.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements for the thirteen and twenty-six week periods ended June 29, 2019 (second quarter and first two quarters of 2019) and June 30, 2018 (second quarter and first two quarters of 2018) have been prepared by our company in accordance with generally accepted accounting principles in the United States (GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and include the accounts of B&G Foods, Inc. and its subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, our management believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. All intercompany balances and transactions have been eliminated. The accompanying unaudited consolidated interim financial statements contain all adjustments that are, in the opinion of management, necessary to present fairly our consolidated financial position as of June 29, 2019, and the results of our operations, comprehensive income and cash flows for the second quarter and first two quarters of 2019 and 2018. Our results of operations for the second quarter and first two quarters of 2019 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events for disclosure through the date of issuance of the accompanying unaudited consolidated interim financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for fiscal 2018 filed with the SEC on February 26, 2019.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Use of Estimates

The preparation of financial statements in accordance with GAAP requires our management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates and assumptions made by management involve revenue recognition as it relates to trade and consumer promotion expenses; allowances for excess, obsolete and unsaleable inventories; pension benefits; acquisition accounting fair value allocations; the recoverability of goodwill, other intangible assets, property, plant and equipment and deferred tax assets; and the determination of the useful life of customer relationship and finite-lived trademark intangibles. Actual results could differ significantly from these estimates and assumptions.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances, including the current economic environment. We adjust such estimates and assumptions when facts and circumstances dictate. Volatility in the credit and equity markets can increase the uncertainty inherent in such estimates and assumptions.

Newly Adopted Accounting Standards

In February 2018, the Financial Accounting Standards Board (FASB) issued a new Accounting Standards Update (ASU) related to the Tax Cuts and Jobs Act, which we refer to as the "U.S. Tax Act." The ASU allows for a company to elect to make a one-time reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the change in corporate tax rate as a result of the U.S. Tax Act. The reclassification is the difference between the amount previously recorded in accumulated other comprehensive loss at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the U.S. Tax Act was effective and the amount that would have been recorded using the newly enacted rate. Additionally, the ASU requires a company to disclose whether or not it elects to make the reclassification. This guidance became effective during the first quarter of 2019. We elected to not make the optional one-time reclassification.

In February 2016, the FASB issued a new ASU that requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current guidance and to disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of operations.

We adopted the new standard prospectively when it became effective in the first quarter of 2019 and applied the new standard to all leases existing at the date of initial application. The new standard provides a number of optional practical expedients in transition. We elected the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We elected all of the new standard's available transition practical expedients that were applicable to us.

The new standard also provides practical expedients for an entity's ongoing accounting. We also elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases with a lease term of twelve months or less, we did not recognize ROU assets or lease liabilities. We also elected the practical expedient to not separate lease and non-lease components for all of our leases.

This standard did not have a material effect on our financial statements. Upon adoption, the most significant effects related to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our operating leases, which was \$39.6 million and \$42.6 million, respectively, as of the beginning of the period; and (2) providing additional new disclosures about our leasing activities.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Recently Issued Accounting Standards

In August 2018, the FASB issued a new ASU which clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. The update is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period. We currently do not expect the adoption of this ASU to have a material impact to our consolidated financial statements.

In August 2018, the FASB issued a new ASU that aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies by changing disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The update is effective for fiscal years beginning after December 15, 2020. We expect to update our defined benefit pension plan disclosures when the new standard becomes effective. We do not expect the adoption of this ASU to have an impact to our consolidated financial statements as this ASU only modifies disclosure requirements.

In August 2018, the FASB issued a new ASU that aims to improve the overall usefulness of disclosures to financial statement users and reduce unnecessary costs to companies by changing disclosure requirements for fair value measurement. The update is effective for fiscal years beginning after December 15, 2019. We expect to update our fair value measurement disclosures when the new standard becomes effective. We do not expect the adoption of this ASU to have an impact to our consolidated financial statements as this ASU only modifies disclosure requirements.

In January 2017, the FASB issued an amendment to the standards of goodwill impairment testing. The new guidance simplifies the test for goodwill impairment, by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The update is effective for fiscal years beginning after December 15, 2019. We expect to adopt the standards when they become effective.

(3) Acquisitions and Divestitures

Clabber Girl

On May 15, 2019, we acquired Clabber Girl Corporation, a leader in baking products, including baking powder, baking soda and corn starch, from Hulman & Company for approximately \$84.6 million in cash, subject to customary closing and post-closing working capital adjustments. In addition to *Clabber Girl*, the number one retail baking powder brand, Clabber Girl Corporation's product offerings include the *Rumford*, *Davis*, *Hearth Club* and *Royal* brands of retail baking powder, baking soda and corn starch, and the *Royal* brand of foodservice dessert mixes. We refer to this acquisition as the "*Clabber Girl* acquisition."

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The following table sets forth the preliminary allocation of the *Clabber Girl* acquisition purchase price to the estimated fair value of the net assets acquired at the date of acquisition. The preliminary purchase price allocation may be adjusted as a result of the finalization of our purchase price allocation procedures related to the assets acquired and liabilities assumed. We anticipate completing the purchase price allocation during the second quarter of fiscal 2020.

Clabber Girl Acquisition (in thousands):

Preliminary Allocation:	May 15, 2019
Cash and cash equivalents	\$ 2,202
Trade accounts receivable, net	5,627
Inventories	11,305
Prepaid expenses and other current assets	154
Income tax receivable	7
Property, plant and equipment, net	20,697
Operating lease right-of-use assets	6,488
Trademarks — indefinite-lived intangible assets	18,500
Customer relationship intangibles — finite-lived intangible assets	17,500
Trade accounts payable	(3,007)
Accrued expenses	(1,315)
Operating lease liabilities, current portion	(863)
Long-term operating lease liabilities, net of current portion	(6,055)
Goodwill	13,392
Total purchase price (paid in cash)	\$ 84,632

The *Clabber Girl* acquisition was not material to our consolidated results of operations or financial position and, therefore, pro forma financial information is not presented.

McCann's Acquisition

On July 16, 2018, we acquired the *McCann's* brand of premium Irish oatmeal from TreeHouse Foods, Inc. for approximately \$30.8 million in cash. We refer to this acquisition as the "*McCann's* acquisition."

The following table sets forth the preliminary allocation of the *McCann's* acquisition purchase price to the estimated fair value of the net assets acquired at the date of acquisition. The preliminary purchase price allocation may be adjusted as a result of the finalization of our purchase price allocation procedures related to the assets acquired and liabilities assumed. We anticipate completing the purchase price allocation during the third quarter of fiscal 2019.

McCann's Acquisition (in thousands):

Preliminary Allocation:	July 16, 2018
Property, plant and equipment	\$ 12
Inventories	973
Trademarks — indefinite-lived intangible assets	24,800
Customer relationship intangibles — finite-lived intangible assets	2,000
Accrued expenses	(292)
Goodwill	3,294
Total purchase price (paid in cash)	\$ 30,787

The *McCann's* acquisition was not material to our consolidated results of operations or financial position and, therefore, pro forma financial information is not presented.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Pirate Brands Divestiture

On October 17, 2018, we completed the sale of Pirate Brands to The Hershey Company for a purchase price of \$420.0 million in cash. Pirate Brands includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands. We refer to this divestiture as the "Pirate Brands sale." Net deferred tax liabilities associated with the Pirate Brands sale were \$107.3 million. We recognized a pre-tax gain on the Pirate Brands sale of \$176.4 million, as calculated below (in thousands):

	October 17, 2018
Cash received	\$ 420,002
Assets sold:	
Inventories	(6,688)
Property, plant and equipment	(404)
Customer relationships — finite-lived intangible assets	(8,408)
Trademarks — indefinite-lived intangible assets	(152,800)
Goodwill	(70,952)
Other	(77)
Total assets sold	(239,328)
Expenses	(4,288)
Gain on sale of assets	\$ 176,386

In December 2018, the compensation committee of our board of directors approved a special bonus pool of \$6.0 million that was paid during the first quarter of 2019 to our executive officers and certain members of senior management to recognize their significant contributions to the successful operation of Pirate Brands during our company's five years of ownership of Pirate Brands and to the successful completion of the Pirate Brands sale at a sale price more than double what our company paid for Pirate Brands in 2013.

(4) Inventories

Inventories are stated at the lower of cost or net realizable value and include direct material, direct labor, overhead, warehousing and product transfer costs. Cost is determined using the first-in, first-out and average cost methods. Inventories have been reduced by an allowance for excess, obsolete and unsaleable inventories. The allowance is an estimate based on management's review of inventories on hand compared to estimated future usage and sales.

Inventories consist of the following, as of the dates indicated (in thousands):

	June 29, 2019	December 29, 2018
Raw materials and packaging	\$ 78,460	\$ 61,905
Work-in-process	33,833	95,282
Finished goods	292,461	244,168
Inventories	\$ 404,754	\$ 401,355

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(5) Goodwill and Other Intangible Assets

The carrying amounts of goodwill and other intangible assets, as of the dates indicated, consist of the following (in thousands):

	June 29, 2019			December 29, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Finite-Lived Intangible Assets</i>						
Trademarks	\$ 19,600	\$ 3,916	\$ 15,684	\$ 19,600	\$ 3,369	\$ 16,231
Customer relationships	353,090	120,497	232,593	335,590	111,952	223,638
Total finite-lived intangible assets	<u>\$ 372,690</u>	<u>\$ 124,413</u>	<u>\$ 248,277</u>	<u>\$ 355,190</u>	<u>\$ 115,321</u>	<u>\$ 239,869</u>
<i>Indefinite-Lived Intangible Assets</i>						
Goodwill	\$ 597,827			\$ 584,435		
Trademarks	<u>\$ 1,374,200</u>			<u>\$ 1,355,700</u>		

As a result of the *Clabber Girl* acquisition, goodwill, indefinite-lived trademarks and finite-lived customer relationships in our consolidated balance sheet increased by \$13.4 million, \$18.5 million and \$17.5 million, respectively, as of the date of acquisition on May 15, 2019. See Note 3, "Acquisitions and Divestitures."

Amortization expense associated with finite-lived intangible assets for the second quarter and first two quarters of 2019 was \$4.6 million and \$9.1 million, respectively, and is recorded in operating expenses. Amortization expense associated with finite-lived intangible assets for the second quarter and first two quarters of 2018 was \$4.6 million and \$9.2 million, respectively. We expect to recognize an additional \$9.4 million of amortization expense associated with our finite-lived intangible assets during the remainder of fiscal 2019, and thereafter \$18.8 million of amortization expense in each of the fiscal years 2020, 2021 and 2022, respectively, and \$18.7 million in each of fiscal 2023 and 2024. See Note 3, "Acquisitions and Divestitures."

(6) Long-Term Debt

Long-term debt consists of the following, as of the dates indicated (in thousands):

	June 29, 2019	December 29, 2018
Revolving credit loans	\$ 215,000	\$ 50,000
4.625% senior notes due 2021	700,000	700,000
5.25% senior notes due 2025	900,000	900,000
Unamortized deferred financing costs	(15,475)	(17,490)
Unamortized premium	3,101	3,371
Total long-term debt, net of unamortized deferred financing costs and premium	<u>\$ 1,802,626</u>	<u>\$ 1,635,881</u>

As of June 29, 2019, the aggregate contractual maturities of long-term debt are as follows (in thousands):

Fiscal year ending:	
2019	\$ —
2020	—
2021	700,000
2022	215,000
2023	—
Thereafter	900,000
Total	<u>\$ 1,815,000</u>

Senior Secured Credit Agreement. In fiscal 2017, we refinanced our senior secured credit facility twice by amending and restating our senior secured credit agreement, first on March 30, 2017, and again on November 20, 2017.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The first refinancing, on March 30, 2017, reduced by 0.75% the spread over LIBOR or the applicable base rate on the then-outstanding \$640.1 million of tranche B term loans.

On April 3, 2017, we repaid all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans using a portion of the net proceeds of our registered public offering of \$500.0 million aggregate principal amount of 5.25% senior notes due 2025.

On November 20, 2017, we again refinanced our senior secured credit facility. This second refinancing increased the principal amount of the tranche B term loans by \$10.0 million to \$650.1 million, reduced by 25 basis points the spread over LIBOR or the applicable base rate on the tranche B term loans and any revolving loans, increased the aggregate commitments under our revolving credit facility from \$500.0 million to \$700.0 million, and extended the maturity date applicable to our revolving credit facility from June 2019 to November 2022.

We made optional prepayments of aggregate principal amount of our tranche B term loans of \$125.0 million in the first quarter of 2018 and \$25.0 million in the second quarter of 2018. On October 18, 2018, we made a mandatory prepayment of \$352.2 million principal amount of tranche B term loans with the net proceeds of the Pirate Brands sale. On October 19, 2018, we made an optional prepayment of the remaining \$147.9 million principal amount of tranche B term loans outstanding under our credit agreement from cash on hand and the proceeds of additional revolving loans under our credit agreement. As a result of the optional and mandatory prepayments of the tranche B term loans, we recognized a loss on extinguishment of debt of \$13.1 million in fiscal 2018, including \$0.5 million and \$3.3 million in the second quarter and first two quarters of 2018, respectively.

At June 29, 2019, the available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$1.6 million, was \$483.4 million. Proceeds of the revolving credit facility may be used for general corporate purposes, including acquisitions of targets in the same or a similar line of business as our company, subject to specified criteria. At June 29, 2019, there was \$215.0 million outstanding under our revolving credit facility.

We are required to pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. The maximum letter of credit capacity under the revolving credit facility is \$50.0 million, with a fronting fee of 0.25% per annum for all outstanding letters of credit and a letter of credit fee equal to the applicable margin for revolving loans that are Eurodollar (LIBOR) loans. The revolving credit facility matures on November 21, 2022.

We may prepay the term loans or permanently reduce the revolving credit facility commitment under the credit agreement at any time without premium or penalty (other than customary "breakage" costs with respect to the early termination of LIBOR loans). Subject to certain exceptions, the credit agreement provides for mandatory prepayment upon certain asset dispositions or casualty events and issuances of indebtedness.

Interest under the revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin ranging from 0.25% to 0.75%, and LIBOR plus an applicable margin ranging from 1.25% to 1.75%, in each case depending on our consolidated leverage ratio.

Interest under the tranche B term loan facility was determined based on alternative rates that we could choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%. As of June 29, 2019, there were no tranche B term loans outstanding under our credit facility.

Our obligations under the credit agreement are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries. The credit agreement is secured by substantially all of our and our domestic subsidiaries' assets except our and our domestic subsidiaries' real property. The credit agreement contains customary restrictive covenants, subject to certain permitted amounts and exceptions, including covenants limiting our ability to incur additional indebtedness, pay dividends and make other restricted payments, repurchase shares of our outstanding stock and create certain liens.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The credit agreement also contains certain financial maintenance covenants, which, among other things, specify a maximum consolidated leverage ratio and a minimum interest coverage ratio, each ratio as defined in the credit agreement. Our consolidated leverage ratio (defined as the ratio of our consolidated net debt, as of the last day of any period of four consecutive fiscal quarters to our adjusted EBITDA for such period), may not exceed 7.00 to 1.00. We are also required to maintain a consolidated interest coverage ratio of at least 1.75 to 1.00 as of the last day of any period of four consecutive fiscal quarters. As of June 29, 2019, we were in compliance with all of the covenants, including the financial covenants, in the credit agreement.

The credit agreement also provides for an incremental term loan and revolving loan facility, pursuant to which we may request that the lenders under the credit agreement, and potentially other lenders, provide unlimited additional amounts of term loans or revolving loans or both on terms substantially consistent with those provided under the credit agreement. Among other things, the utilization of the incremental facility is conditioned on our ability to meet a maximum senior secured leverage ratio of 4.00 to 1.00, and a sufficient number of lenders or new lenders agreeing to participate in the facility.

4.625% Senior Notes due 2021. On June 4, 2013, we issued \$700.0 million aggregate principal amount of 4.625% senior notes due 2021 at a price to the public of 100% of their face value.

Interest on the 4.625% senior notes is payable on June 1 and December 1 of each year. The 4.625% senior notes will mature on June 1, 2021, unless earlier retired or redeemed. We may redeem some or all of the 4.625% senior notes at a redemption price of 103.469% beginning June 1, 2016 and thereafter at prices declining annually to 100% on or after June 1, 2019, in each case plus accrued and unpaid interest to the date of redemption. In addition, if we undergo a change of control or upon certain asset sales, we may be required to offer to repurchase the 4.625% senior notes at the repurchase price set forth in the indenture plus accrued and unpaid interest to the date of repurchase.

We may also, from time to time, seek to retire the 4.625% senior notes through cash repurchases of the 4.625% senior notes and/or exchanges of the 4.625% senior notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Our obligations under the 4.625% senior notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries. The 4.625% senior notes and the subsidiary guarantees are our and the guarantors' general unsecured obligations and are effectively junior in right of payment to all of our and the guarantors' secured indebtedness and to all existing and future indebtedness and other liabilities of our non-guarantor subsidiaries; are *pari passu* in right of payment to all of our and the guarantors' existing and future unsecured senior debt; and are senior in right of payment to all of our and the guarantors' future subordinated debt. Our foreign subsidiaries are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of the 4.625% senior notes.

The indenture governing the 4.625% senior notes contains covenants with respect to us and the guarantors and restricts the incurrence of additional indebtedness and the issuance of capital stock; the payment of dividends or distributions on, and redemption of, capital stock; a number of other restricted payments, including certain investments; creation of specified liens, certain sale-leaseback transactions and sales of certain specified assets; fundamental changes, including consolidation, mergers and transfers of all or substantially all of our assets; and specified transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications. As of June 29, 2019, we were in compliance with all of the covenants in the indenture governing the 4.625% senior notes.

5.25% Senior Notes due 2025. On April 3, 2017, we issued \$500.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public of 100% of their face value. On November 20, 2017, we issued an additional \$400.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public 101% of their face value plus accrued interest from October 1, 2017, which equates to a yield to worst of 5.03%. The notes issued in November were issued as additional notes under the same indenture as our 5.25% senior notes due 2025 that were issued in April, and, as such, form a single series and trade interchangeably with the previously issued 5.25% senior notes.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

We used the net proceeds of the April 2017 offering to repay all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans, and to pay related fees and expenses. We used the net proceeds of the November 2017 offering to repay all of the then outstanding borrowings and amounts due under our revolving credit facility and to pay related fees and expenses. We have used a portion of, and intend to use the remaining portion of, the net proceeds of the April 2017 and November 2017 offerings for general corporate purposes, which have included and could include, among other things, repayment of other long term debt or possible acquisitions.

Interest on the 5.25% senior notes is payable on April 1 and October 1 of each year, commencing October 1, 2017. The 5.25% senior notes will mature on April 1, 2025, unless earlier retired or redeemed. On or after April 1, 2020, we may redeem some or all of the 5.25% senior notes at a redemption price of 103.9375% beginning April 1, 2020 and thereafter at prices declining annually to 100% on or after April 1, 2023, in each case plus accrued and unpaid interest to the date of redemption. In addition, if we undergo a change of control or upon certain asset sales, we may be required to offer to repurchase the 5.25% senior notes at the repurchase price set forth in the indenture plus accrued and unpaid interest to the date of repurchase.

We may also, from time to time, seek to retire the 5.25% senior notes through cash repurchases of the 5.25% senior notes and/or exchanges of the 5.25% senior notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Our obligations under the 5.25% senior notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries. The 5.25% senior notes and the subsidiary guarantees are our and the guarantors' general unsecured obligations and are effectively junior in right of payment to all of our and the guarantors' secured indebtedness and to all existing and future indebtedness and other liabilities of our non-guarantor subsidiaries; are *pari passu* in right of payment to all of our and the guarantors' existing and future unsecured senior debt; and are senior in right of payment to all of our and the guarantors' future subordinated debt. Our foreign subsidiaries are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of the 5.25% senior notes.

The indenture governing the 5.25% senior notes contains covenants with respect to us and the guarantors and restricts the incurrence of additional indebtedness and the issuance of capital stock; the payment of dividends or distributions on, and redemption of, capital stock; a number of other restricted payments, including certain investments; creation of specified liens, certain sale-leaseback transactions and sales of certain specified assets; fundamental changes, including consolidation, mergers and transfers of all or substantially all of our assets; and specified transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications. As of June 29, 2019, we were in compliance with all of the covenants in the indenture governing the 5.25% senior notes.

Subsidiary Guarantees. We have no assets or operations independent of our direct and indirect subsidiaries. All of our present domestic subsidiaries jointly and severally and fully and unconditionally guarantee our long-term debt. There are no significant restrictions on our ability and the ability of our subsidiaries to obtain funds from our respective subsidiaries by dividend or loan. See Note 18, "Guarantor and Non-Guarantor Financial Information."

Accrued Interest. At June 29, 2019 and December 29, 2018, accrued interest of \$14.8 million and \$15.6 million, respectively, is included in accrued expenses in the accompanying unaudited consolidated balance sheets.

Loss on Extinguishment of Debt. We did not have a loss on extinguishment of debt during the second quarter and first two quarters of 2019. During the second quarter of 2018, we incurred a loss on extinguishment of debt in connection with the prepayment of our tranche B term loans, which includes the write-off of deferred debt financing costs of \$0.4 million and the write-off of unamortized discount of \$0.1 million. During the second quarter and first two quarters of 2018, we incurred a loss on extinguishment of debt in connection with the prepayment of our then outstanding tranche B term loans, which included the write-off of deferred debt financing costs of \$2.8 million and the write-off of unamortized discount of \$0.5 million.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(7) Fair Value Measurements

The authoritative accounting literature relating to fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The accounting literature outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and the accounting literature details the disclosures that are required for items measured at fair value.

Financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy under the accounting literature. The three levels are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 quoted prices, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value driver is observable for the asset or liability, either directly or indirectly.

Level 3—Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

Cash and cash equivalents, trade accounts receivable, income tax receivable, trade accounts payable, accrued expenses, income tax payable and dividends payable are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

The carrying values and fair values of our revolving credit loans, term loans, 4.625% senior notes and 5.25% senior notes as of June 29, 2019 and December 29, 2018 are as follows (in thousands):

	June 29, 2019		December 29, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit loans	\$ 215,000	\$ 215,000 ⁽¹⁾	\$ 50,000	\$ 50,000 ⁽¹⁾
4.625% senior notes due 2021	700,000	698,250 ⁽²⁾	700,000	684,250 ⁽²⁾
5.25% senior notes due 2025	\$ 903,101 ⁽³⁾	\$ 907,617 ⁽²⁾	\$ 903,371 ⁽³⁾	\$ 837,877 ⁽²⁾

(1) Fair values are estimated based on Level 2 inputs, which were quoted prices for identical or similar instruments in markets that are not active.

(2) Fair values are estimated based on quoted market prices.

(3) The carrying values of the 5.25% senior notes due 2025 include a premium. At June 29, 2019 and December 29, 2018 the face amount of the 5.25% senior notes due 2025 was \$900.0 million.

There was no Level 3 activity during the second quarter or first two quarters of 2019 or 2018.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(8) Accumulated Other Comprehensive Loss

The reclassifications from accumulated other comprehensive loss (AOCL) for the second quarter and first two quarters of 2019 and 2018 are as follows (in thousands):

Details about AOCL Components	Amounts Reclassified from AOCL				Affected Line Item in the Statement Where Net Income is Presented
	Thirteen Weeks Ended June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018	
Defined benefit pension plan items					
Amortization of unrecognized prior service cost	\$ —	\$ 1	\$ —	\$ 1	See (1) below
Amortization of unrecognized loss	215	183	430	331	See (1) below
Accumulated other comprehensive loss before tax	215	184	430	332	Total before tax
Tax expense	(52)	(46)	(105)	(83)	Income tax expense
Total reclassification	<u>\$ 163</u>	<u>\$ 138</u>	<u>\$ 325</u>	<u>\$ 249</u>	Net of tax

(1) These items are included in the computation of net periodic pension cost. See Note 10, "Pension Benefits," for additional information.

Changes in AOCL for the first two quarters of 2019 are as follows (in thousands):

	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total
Balance at December 29, 2018	\$ (12,224)	\$ (11,278)	\$ (23,502)
Other comprehensive income before reclassifications	—	3,001	3,001
Amounts reclassified from AOCL	325	—	325
Net current period other comprehensive income	325	3,001	3,326
Balance at June 29, 2019	<u>\$ (11,899)</u>	<u>\$ (8,277)</u>	<u>\$ (20,176)</u>

As a result of accounting guidance issued by the FASB in February 2018, we had the option to elect to make a one-time reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the change in corporate tax rate as a result of the U.S. Tax Act. This guidance became effective during the first quarter of 2019. We elected to not make the optional one-time reclassification.

(9) Stock Repurchase Program

On March 13, 2018, our board of directors authorized a stock repurchase program for the repurchase of up to \$50.0 million of our company's common stock through March 15, 2019.

Under that authorization, we repurchased and retired 1,397,148 shares of common stock at an average price per share (excluding fees and commissions) of \$26.41, or \$36.9 million in the aggregate, including 407,022 shares of common stock at an average price per share (excluding fees and commissions) of \$24.55, or \$10.0 million in the aggregate, during the first quarter of 2019. We did not repurchase any shares of common stock during the first two quarters of 2018.

On March 12, 2019, our board of directors authorized an extension of our stock repurchase program from March 15, 2019 to March 15, 2020. In extending the repurchase program, our board of directors also reset the repurchase authority to up to \$50.0 million. We did not repurchase any shares of common stock during the second quarter of 2019. Therefore, as of June 29, 2019, we had \$50.0 million available for future repurchases of common stock under the stock repurchase program.

Under the authorization, we may purchase shares of common stock from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The timing and amount of future stock repurchases, if any, under the program will be at the discretion of management, and will depend on a variety of factors, including price, available cash, general business and market conditions and other investment opportunities. Therefore, we cannot assure you as to the number or aggregate dollar amount of additional shares, if any, that will be repurchased under the program. We may discontinue the program at any time. Any shares repurchased pursuant to the program will be retired.

(10) Pension Benefits

Company Sponsored Defined Benefit Pension Plans. Net periodic pension cost for company sponsored defined benefit pension plans for the second quarter and first two quarters of 2019 and 2018 includes the following components (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Service cost—benefits earned during the period	\$ 1,734	\$ 1,909	\$ 3,671	\$ 3,894
Interest cost on projected benefit obligation	1,431	1,267	2,873	2,529
Expected return on plan assets	(1,913)	(2,008)	(3,827)	(4,009)
Amortization of unrecognized prior service cost	—	1	—	1
Amortization of unrecognized loss	215	183	430	331
Net periodic pension cost	<u>\$ 1,467</u>	<u>\$ 1,352</u>	<u>\$ 3,147</u>	<u>\$ 2,746</u>

During the first two quarters of 2019, we did not make any defined benefit plan contributions. During the first two quarters of 2018, we made \$1.1 million of defined benefit pension plan contributions.

Multi-Employer Defined Benefit Pension Plan. We also contribute to the Bakery and Confectionery Union and Industry International Pension Fund (EIN 52-6118572, Plan No. 001), a multi-employer defined benefit pension plan, sponsored by the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union (BCTGM). The plan provides multiple plan benefits with corresponding contribution rates that are collectively bargained between participating employers and their affiliated BCTGM local unions.

We were notified that for the plan year beginning January 1, 2012, the plan was in critical status and classified in the Red Zone. As of the date of the accompanying unaudited consolidated interim financial statements, the plan remains in critical status. The law requires that all contributing employers pay to the plan a surcharge to help correct the plan's financial situation. The amount of the surcharge is equal to a percentage of the amount an employer is otherwise required to contribute to the plan under the applicable collective bargaining agreement. During the second quarter of 2015, we agreed to a collective bargaining agreement that, among other things, implements a rehabilitation plan. As a result, our contributions to the plan are expected to increase by at least 5.0% per year.

B&G Foods made contributions to the plan of \$0.5 million in the first two quarters of 2019 and expects to pay surcharges of less than \$0.3 million in fiscal 2019 assuming consistent hours are worked. B&G Foods contributed \$0.5 million in fiscal 2018 and paid less than \$0.1 million in surcharges. These contributions represented less than five percent of total contributions made to the plan.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(11) Leases

Operating Leases. We adopted Accounting Standards Codification (ASC) Topic 842 at the beginning of the first quarter of 2019 and recognized an operating right-of-use (ROU) asset of \$39.6 million and operating lease liabilities of \$42.6 million at inception. Operating leases are included in the accompanying unaudited consolidated balance sheets in the following line items:

	June 29, 2019
Right-of-use assets:	
Operating lease right-of-use assets	\$ 42,059
Operating lease liabilities:	
Operating lease liabilities, current portion	\$ 9,915
Long-term operating lease liabilities, net of current portion	35,421
Total operating lease liabilities	<u>\$ 45,336</u>

We determine whether an arrangement is a lease at inception. We have operating leases for certain of our manufacturing facilities, distribution centers, warehouse and storage facilities, machinery and equipment, and office equipment. Our leases have remaining lease terms of one year to seven years, some of which include options to extend the lease term for up to five years, and some of which include options to terminate the lease within one year. We consider these options in determining the lease term used to establish our right-of use assets and lease liabilities.

Supplemental information related to leases:

	June 29, 2019	
	Thirteen Weeks Ended	Twenty-six Weeks Ended
Operating cash flow information:		
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,795	\$ 5,497
The components of lease costs were as follows:		
Cost of goods sold	\$ 769	\$ 1,437
Selling, general and administrative expenses	1,970	3,940
Total lease costs	<u>\$ 2,739</u>	<u>\$ 5,377</u>

Total rent expense was \$4.0 million, including the operating lease costs of \$2.7 million stated above, for the second quarter of 2019, and \$7.2 million, including the operating lease costs of \$5.4 million stated above, for the first two quarters of 2019. Total rent expense was \$3.2 million and \$6.5 million, respectively, for the second quarter and first two quarters of 2018.

Because our operating leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We have lease agreements that contain both lease and non-lease components. With the exception of our real estate leases, we account for our leases as a single lease component. See Note 2, “Summary of Significant Accounting Policies — *Newly Adopted Accounting Standards*,” for further details.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The following table shows the lease term and discount rate for our ROU assets:

	June 29, 2019
Weighted average remaining lease term (years)	5.8
Weighted average discount rate	4.07%

As of June 29, 2019, the maturities of operating lease liabilities were as follows (in thousands):

Fiscal year ending:	
2019	\$ 5,873
2020	10,797
2021	10,087
2022	5,622
2023	5,608
Thereafter	13,519
Total undiscounted future minimum lease payments	51,506
Less: Imputed interest	(6,170)
Total present value of future operating lease liabilities	<u>\$ 45,336</u>

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease standard (Topic 840), as of December 29, 2018, future minimum lease payments under non-cancelable operating leases in effect at year-end (with initial or remaining lease terms in excess of one year) for the periods set forth below were as follows (in thousands):

Fiscal year ending:	
2019	\$ 12,298
2020	10,953
2021	8,991
2022	4,733
2023	4,784
Thereafter	8,445
Total undiscounted future minimum lease payments	<u>\$ 50,204</u>

(12) Commitments and Contingencies

Legal Proceedings. We are from time to time involved in various claims and legal actions arising in the ordinary course of business, including proceedings involving product liability claims, product labeling claims, worker's compensation and other employee claims, and tort and other general liability claims, as well as trademark, copyright, patent infringement and related claims and legal actions. While we cannot predict with certainty the results of these claims and legal actions in which we are currently, or in the future may be, involved, we do not expect that the ultimate disposition of any currently pending claims or actions will have a material adverse effect on our consolidated financial position, results of operations or liquidity.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Environmental. We are subject to environmental laws and regulations in the normal course of business. We did not make any material expenditures during the first two quarters of 2019 or 2018 in order to comply with environmental laws and regulations. Based on our experience to date, management believes that the future cost of compliance with existing environmental laws and regulations (and liability for any known environmental conditions) will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, we cannot predict what environmental or health and safety legislation or regulations will be enacted in the future or how existing or future laws or regulations will be enforced, administered or interpreted, nor can we predict the amount of future expenditures that may be required in order to comply with such environmental or health and safety laws or regulations or to respond to such environmental claims.

Collective Bargaining Agreements. As of June 29, 2019, approximately 1,740 of our 2,856 employees, or 60.9%, were covered by collective bargaining agreements. Four of our collective bargaining agreements expire in the next twelve months. The collective bargaining agreement covering our Brooklyn facility, which covers approximately 60 employees, is scheduled to expire on December 31, 2019; the collective bargaining agreement covering our Terre Haute facility, which was acquired as part of the *Clabber Girl* acquisition and covers approximately 100 employees, is scheduled to expire on March 27, 2020; the collective bargaining agreement covering our Roseland facility, which covers approximately 50 employees, is scheduled to expire on March 31, 2020; and the collective bargaining agreement covering our Ankeny facility, which covers approximately 275 employees, is scheduled to expire on April 5, 2020. While we believe that our relations with our union employees are in general good, we cannot assure you that we will be able to negotiate a new collective bargaining agreement for our Brooklyn, Terre Haute, Roseland or Ankeny facilities on terms satisfactory to us, or at all, and without production interruptions, including labor stoppages. At this time, however, management does not expect that the outcome of these negotiations will have a material adverse impact on our business, financial condition or results of operations.

Severance and Change of Control Agreements. We have employment agreements with each of our executive officers. The agreements generally continue until terminated by the executive or by us, and provide for severance payments under certain circumstances, including termination by us without cause (as defined in the agreements) or as a result of the employee's death or disability, or termination by us or a deemed termination upon a change of control (as defined in the agreements). Severance benefits generally include payments for salary continuation, continuation of health care and insurance benefits, present value of additional pension credits and, in the case of a change of control, accelerated vesting under compensation plans and, in certain cases, potential gross up payments for excise tax liability.

(13) Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding plus all additional shares of common stock that would have been outstanding if potentially dilutive shares of common stock had been issued upon the exercise of stock options or in connection with performance shares that may be earned under long-term incentive awards as of the grant date, in the case of the stock options, and as of the beginning of the period, in the case of the performance shares, using the treasury stock method. For the second quarter of 2019 and 2018, there were 1,076,206 and 1,225,416, respectively, shares of common stock issuable upon the exercise of stock options excluded from the calculation of diluted weighted average shares outstanding because the effect would have been anti-dilutive on diluted earnings per share.

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Weighted average shares outstanding:				
Basic	65,341,356	66,307,190	65,463,964	66,412,421
Net effect of potentially dilutive share-based compensation awards	49,159	46,449	39,871	122,121
Diluted	<u>65,390,515</u>	<u>66,353,639</u>	<u>65,503,835</u>	<u>66,534,542</u>

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(14) Business and Credit Concentrations and Geographic Information

Our exposure to credit loss in the event of non-payment of accounts receivable by customers is estimated in the amount of the allowance for doubtful accounts. We perform ongoing credit evaluations of the financial condition of our customers. Our top ten customers accounted for approximately 55.0% and 56.0% of consolidated net sales for the first two quarters of 2019 and 2018, respectively. Our top ten customers accounted for approximately 57.7% and 54.8% of our consolidated trade accounts receivables as of June 29, 2019 and December 29, 2018, respectively. Other than Walmart, which accounted for 25.8% and 24.8% of our consolidated net sales for the first two quarters of 2019 and 2018, respectively, no single customer accounted for more than 10.0% of our consolidated net sales for the first two quarters of 2019 or 2018. Other than Walmart, which accounted for 28.0% and 24.9% of our consolidated trade accounts receivables as of June 29, 2019 and December 29, 2018, respectively, no single customer accounted for more than 10.0% of our consolidated trade accounts receivables. As of June 29, 2019, we do not believe we have any significant concentration of credit risk with respect to our consolidated trade accounts receivable with any single customer whose failure or nonperformance would materially affect our results other than as described above with respect to Walmart.

During the first two quarters of 2019 and 2018, our sales to customers in foreign countries represented approximately 7.6% and 6.9%, respectively, of net sales. Our foreign sales are primarily to customers in Canada.

(15) Share-Based Payments

The following table details our stock option activity for the first two quarters of fiscal 2019 (dollars in thousands, except per share data):

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (Years)	Aggregate Intrinsic Value
Outstanding at December 29, 2018	1,194,105	\$ 31.40		
Granted	40,938	\$ 22.68		
Exercised	—	\$ —		
Forfeited	(116,223)	\$ 30.23		
Cancelled	(1,676)	\$ 29.10		
Outstanding at June 29, 2019	1,117,144	\$ 31.20	6.93	\$ 83
Exercisable at June 29, 2019	818,483	\$ 31.94	6.30	\$ —

The fair value of the options was estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following assumptions. Expected volatility was based on both historical and implied volatilities of our common stock over the estimated expected term of the award. The expected term of the options granted represents the period of time that options were expected to be outstanding and is based on the “simplified method” in accordance with accounting guidance. We utilized the simplified method to determine the expected term of the options as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant.

	2019	2018
Weighted average grant date fair value	\$ 2.44	\$ 3.74
Expected volatility	31.27%	30.6% - 31.7%
Expected term	5.5 years	5.5 - 6.5 years
Risk-free interest rate	1.86%	2.6% - 2.8%
Dividend yield	8.38%	6.7% - 8.1%

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

The following table sets forth the compensation expense recognized for share-based payments (performance share long-term incentive awards (LTIA)s, stock options, non-employee director stock grants, restricted stock and other share based payments) during the second quarter and first two quarters of 2019 and 2018 and where that expense is reflected in our consolidated statements of operations (in thousands):

Consolidated Statements of Operations Location	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Compensation expense included in cost of goods sold	\$ 157	\$ 495	\$ 330	\$ 764
Compensation expense included in selling, general and administrative expenses	1,227	1,264	1,634	1,833
Total compensation expense for share-based payments	<u>\$ 1,384</u>	<u>\$ 1,759</u>	<u>\$ 1,964</u>	<u>\$ 2,597</u>

As of June 29, 2019, there was \$2.9 million of unrecognized compensation expense related to performance share LTIA)s, which is expected to be recognized over the next 2.5 years, and \$0.9 million of unrecognized compensation expense related to stock options, which is expected to be recognized over the next 1.3 years.

During the first two quarters of 2019, our company extended the post-retirement exercise period for 48,727 vested options held by board members (from six months to the full remaining term) and 517,785 vested options held by three retired executives (from six months to three-years) and recognized an additional \$0.7 million of pre-tax share-based compensation expense in the second quarter of 2019, which is reflected in the table above.

The following table details the activity in our non-vested performance share LTIA)s for the first two quarters of 2019:

	Number of Performance Shares ⁽¹⁾	Weighted Average Grant Date Fair Value (per share) ⁽²⁾
Outstanding at December 29, 2018	509,317	\$ 27.30
Granted	382,574	\$ 18.88
Vested	(102,893)	\$ 29.04
Forfeited	(124,229)	\$ 26.35
Outstanding at June 29, 2019	<u>664,769</u>	<u>\$ 22.38</u>

- (1) Solely for purposes of this table, the number of performance shares is based on the participants earning the maximum number of performance shares (i.e., 200% of the target number of performance shares).
- (2) The fair value of the awards was determined based upon the closing price of our common stock on the applicable measurement dates (i.e., the deemed grant dates for accounting purposes), reduced by the present value of expected dividends using the risk-free interest-rate, as the award holders are not entitled to dividends or dividend equivalents during the vesting period.

The following table details the number of shares of common stock issued by our company during the second quarter and first two quarters of 2019 and 2018 upon the vesting of performance share LTIA)s, the exercise of stock options, restricted stock and other share-based payments:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Number of performance shares vested	—	—	102,893	150,255
Shares withheld to fund statutory minimum tax withholding	—	—	(36,965)	(57,298)
Shares of common stock issued for performance share LTIA)s	—	—	65,928	92,957
Shares of common stock issued to non-employee directors for annual equity grants	45,848	33,920	45,848	35,039
Shares of restricted common stock issued to employees	32,059	—	32,059	—
Total shares of common stock issued	<u>77,907</u>	<u>33,920</u>	<u>143,835</u>	<u>127,996</u>

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(16) Workforce Reduction

Workforce Reduction Expenses. During the first two quarters of 2019, we implemented a reduction in workforce. On a pre-tax basis, we expect that the reduction in workforce will save our company an estimated \$2.4 million on an annualized basis. During the first two quarters of 2019, we recorded charges of \$1.9 million related to the workforce reduction. We expect to record additional charges of approximately \$0.5 million relating to the workforce reduction during the remainder of 2019. Substantially all of these charges have resulted or will result in cash payments, \$1.1 million of which were made during the first two quarters of 2019 and approximately \$1.3 million of which will continue through 2020.

Retirement Expenses. As previously disclosed, we entered into retirement agreements with two of our executive vice presidents during the first quarter of 2019. The retirement and other benefits payable under the agreements are included in the estimated charges set forth above.

(17) Net Sales by Brand

The following table sets forth net sales by brand (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Brand: ⁽¹⁾				
Green Giant - frozen	\$ 87,657	\$ 84,182	\$ 188,520	\$ 179,071
Spices & Seasonings ⁽²⁾	61,012	63,670	124,238	126,430
Ortega	34,048	34,068	71,300	71,922
Green Giant - shelf stable ⁽³⁾	18,310	13,446	44,749	39,129
Maple Grove Farms of Vermont	17,778	17,078	35,675	34,043
Back to Nature	16,003	17,622	32,665	37,662
Mrs. Dash	14,427	14,513	29,635	31,249
Cream of Wheat	11,678	11,777	29,088	30,201
Pirate Brands ⁽⁴⁾	—	25,206	—	46,202
All other brands	110,284	106,816	228,061	224,198
Total	<u>\$ 371,197</u>	<u>\$ 388,378</u>	<u>\$ 783,931</u>	<u>\$ 820,107</u>

(1) Table includes net sales for each of our brands whose net sales for the first two quarters of 2019 or fiscal 2018 represent 3% or more of our total net sales for those periods, and for “all other brands” in the aggregate. Net sales for each brand includes branded net sales and, if applicable, any private label and foodservice net sales attributable to the brand.

(2) Includes net sales for multiple brands acquired as part of the spices & seasonings acquisition that we completed on November 21, 2016, including French’s® seasoning mixes, which we discontinued during the third quarter of 2018 following the expiration of a licensing agreement. Does not include net sales for *Mrs. Dash* and our other legacy spices & seasonings brands.

(3) Does not include net sales of the *Le Sueur* brand. Net sales of the *Le Sueur* brand are included below in “All other brands.”

(4) See Note 3, “Acquisitions and Divestitures.”

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(18) Guarantor and Non-Guarantor Financial Information

As further discussed in Note 6, “Long-Term Debt,” our obligations under the 4.625% senior notes and the 5.25% senior notes are jointly and severally and fully and unconditionally guaranteed on a senior basis by all of our existing and certain future domestic subsidiaries, which we refer to in this note as the guarantor subsidiaries. Our foreign subsidiaries, which we refer to in this note as the non-guarantor subsidiaries, do not guarantee the 4.625% senior notes or the 5.25% senior notes.

The following condensed consolidating financial information presents the condensed consolidating balance sheet as of June 29, 2019 and December 29, 2018, the related condensed consolidating statement of operations for the thirteen and twenty-six weeks ended June 29, 2019 and June 30, 2018 and the related condensed consolidating statement of cash flows for the twenty-six weeks ended June 29, 2019 and June 30, 2018 for:

1. B&G Foods, Inc. (the Parent),
2. the guarantor subsidiaries,
3. the non-guarantor subsidiaries, and
4. the Parent and all of its subsidiaries on a consolidated basis.

The information includes elimination entries necessary to consolidate the Parent with the guarantor subsidiaries and non-guarantor subsidiaries. The guarantor subsidiaries and non-guarantor subsidiaries are presented on a combined basis. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial information for each of the guarantor subsidiaries and non-guarantor subsidiaries are not presented because management believes such financial statements would not be meaningful to investors.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
As of June 29, 2019
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 16,643	\$ 3,268	\$ —	\$ 19,911
Trade accounts receivable, net	—	128,326	8,167	—	136,493
Inventories, net	—	347,213	57,541	—	404,754
Prepaid expenses and other current assets	—	21,726	4,497	—	26,223
Income tax receivable	—	9,512	544	—	10,056
Total current assets	—	523,420	74,017	—	597,437
Property, plant and equipment, net	—	261,137	44,185	—	305,322
Operating lease right-of-use assets	—	41,974	85	—	42,059
Goodwill	—	597,827	—	—	597,827
Other intangibles, net	—	1,622,477	—	—	1,622,477
Other assets	—	1,070	13	—	1,083
Deferred income taxes	—	—	5,562	—	5,562
Investments in subsidiaries	2,717,514	98,611	—	(2,816,125)	—
Total assets	<u>\$ 2,717,514</u>	<u>\$ 3,146,516</u>	<u>\$ 123,862</u>	<u>\$ (2,816,125)</u>	<u>\$ 3,171,767</u>
Liabilities and Stockholders' Equity					
Current Liabilities:					
Trade accounts payable	\$ —	\$ 101,888	\$ 11,648	\$ —	\$ 113,536
Accrued expenses	—	40,051	3,189	—	43,240
Operating lease liabilities, current portion	—	9,871	44	—	9,915
Income tax payable	—	1,330	(920)	—	410
Dividends payable	31,053	—	—	—	31,053
Intercompany payables	—	(11,235)	11,235	—	—
Total current liabilities	31,053	141,905	25,196	—	198,154
Long-term debt	1,818,101	(15,475)	—	—	1,802,626
Deferred income taxes	—	243,754	—	—	243,754
Long-term operating lease liabilities, net of current portion	—	35,367	54	—	35,421
Other liabilities	—	23,452	—	—	23,452
Total liabilities	1,849,154	429,003	25,250	—	2,303,407
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	654	—	—	—	654
Additional paid-in capital	46,284	1,898,316	68,253	(1,966,569)	46,284
Accumulated other comprehensive loss	(20,176)	(20,176)	(8,276)	28,452	(20,176)
Retained earnings	841,598	839,373	38,635	(878,008)	841,598
Total stockholders' equity	868,360	2,717,513	98,612	(2,816,125)	868,360
Total liabilities and stockholders' equity	<u>\$ 2,717,514</u>	<u>\$ 3,146,516</u>	<u>\$ 123,862</u>	<u>\$ (2,816,125)</u>	<u>\$ 3,171,767</u>

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Condensed Consolidating Balance Sheet
As of December 29, 2018
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 9,871	\$ 1,777	\$ —	\$ 11,648
Trade accounts receivable, net	—	140,464	11,243	—	151,707
Inventories, net	—	332,774	68,581	—	401,355
Prepaid expenses and other current assets	—	15,995	3,993	—	19,988
Income tax receivable	—	—	1,398	—	1,398
Total current assets	—	499,104	86,992	—	586,096
Property, plant and equipment, net	—	238,128	44,425	—	282,553
Goodwill	—	584,435	—	—	584,435
Other intangibles, net	—	1,595,569	—	—	1,595,569
Other assets	—	1,193	13	—	1,206
Deferred income taxes	—	—	4,940	—	4,940
Investments in subsidiaries	2,584,598	93,069	—	(2,677,667)	—
Total assets	\$ 2,584,598	\$ 3,011,498	\$ 136,370	\$ (2,677,667)	\$ 3,054,799
Liabilities and Stockholders' Equity					
Current Liabilities:					
Trade accounts payable	\$ —	\$ 115,946	\$ 24,054	\$ —	\$ 140,000
Accrued expenses	—	53,386	2,274	—	55,660
Income tax payable	—	31,247	377	—	31,624
Dividends payable	31,178	—	—	—	31,178
Intercompany payables	—	(16,581)	16,581	—	—
Total current liabilities	31,178	183,998	43,286	—	258,462
Long-term debt	1,653,371	(17,490)	—	—	1,635,881
Deferred income taxes	—	235,902	—	—	235,902
Other liabilities	—	24,490	15	—	24,505
Total liabilities	1,684,549	426,900	43,301	—	2,154,750
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	656	—	—	—	656
Additional paid-in capital	116,339	1,803,769	68,253	(1,872,022)	116,339
Accumulated other comprehensive loss	(23,502)	(23,502)	(11,279)	34,781	(23,502)
Retained earnings	806,556	804,331	36,095	(840,426)	806,556
Total stockholders' equity	900,049	2,584,598	93,069	(2,677,667)	900,049
Total liabilities and stockholders' equity	\$ 2,584,598	\$ 3,011,498	\$ 136,370	\$ (2,677,667)	\$ 3,054,799

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income
Thirteen Weeks Ended June 29, 2019
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 363,329	\$ 46,591	\$ (38,723)	\$ 371,197
Cost of goods sold	—	273,706	44,347	(38,723)	279,330
Gross profit	—	89,623	2,244	—	91,867
Operating expenses:					
Selling, general and administrative expenses	—	34,887	4,969	—	39,856
Amortization expense	—	4,601	—	—	4,601
Operating income (loss)	—	50,135	(2,725)	—	47,410
Other income and expenses:					
Interest expense, net	—	23,179	—	—	23,179
Other income	—	(525)	—	—	(525)
Income (loss) before income tax expense	—	27,481	(2,725)	—	24,756
Income tax expense	—	5,712	793	—	6,505
Equity in earnings (loss) of subsidiaries	18,251	(3,518)	—	(14,733)	—
Net income (loss)	\$ 18,251	\$ 18,251	\$ (3,518)	\$ (14,733)	\$ 18,251
Comprehensive income (loss)	\$ 19,957	\$ 18,088	\$ (1,975)	\$ (16,113)	\$ 19,957

Condensed Consolidating Statement of Operations and Comprehensive Income
Twenty-six Weeks Ended June 29, 2019
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 753,496	\$ 101,616	\$ (71,181)	\$ 783,931
Cost of goods sold	—	580,006	95,160	(71,181)	603,985
Gross profit	—	173,490	6,456	—	179,946
Operating expenses:					
Selling, general and administrative expenses	—	74,942	3,211	—	78,153
Amortization expense	—	9,092	—	—	9,092
Operating income	—	89,456	3,245	—	92,701
Other income and expenses:					
Interest expense, net	—	46,253	—	—	46,253
Other income	—	(783)	—	—	(783)
Income before income tax expense	—	43,986	3,245	—	47,231
Income tax expense	—	11,484	705	—	12,189
Equity in earnings (loss) of subsidiaries	35,042	2,540	—	(37,582)	—
Net income (loss)	\$ 35,042	\$ 35,042	\$ 2,540	\$ (37,582)	\$ 35,042
Comprehensive income (loss)	\$ 38,368	\$ 34,717	\$ 5,541	\$ (40,258)	\$ 38,368

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income
Thirteen Weeks Ended June 30, 2018
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 372,442	\$ 40,911	\$ (24,975)	\$ 388,378
Cost of goods sold	—	294,431	37,749	(24,975)	307,205
Gross profit	—	78,011	3,162	—	81,173
Operating expenses:					
Selling, general and administrative expenses	—	35,902	1,370	—	37,272
Amortization expense	—	4,609	—	—	4,609
Operating income	—	37,500	1,792	—	39,292
Other income and expenses:					
Interest expense, net	—	27,607	—	—	27,607
Loss on extinguishment of debt	—	546	—	—	546
Other expense	—	388	—	—	388
Income before income tax expense (benefit)	—	8,959	1,792	—	10,751
Income tax expense (benefit)	—	3,595	(820)	—	2,775
Equity in earnings (loss) of subsidiaries	7,976	2,612	—	(10,588)	—
Net income (loss)	\$ 7,976	\$ 7,976	\$ 2,612	\$ (10,588)	\$ 7,976
Comprehensive income (loss)	\$ 2,455	\$ 7,838	\$ (3,047)	\$ (4,791)	\$ 2,455

Condensed Consolidating Statement of Operations and Comprehensive Income
Twenty-six Weeks Ended June 30, 2018
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 780,290	\$ 93,226	\$ (53,409)	\$ 820,107
Cost of goods sold	—	605,656	83,331	(53,409)	635,578
Gross profit	—	174,634	9,895	—	184,529
Operating expenses:					
Selling, general and administrative expenses	—	75,041	4,799	—	79,840
Amortization expense	—	9,218	—	—	9,218
Operating income	—	90,375	5,096	—	95,471
Other income and expenses:					
Interest expense, net	—	55,913	—	—	55,913
Loss on extinguishment of debt	—	3,324	—	—	3,324
Other income	—	(1,666)	—	—	(1,666)
Income before income tax expense	—	32,804	5,096	—	37,900
Income tax expense	—	9,093	284	—	9,377
Equity in earnings (loss) of subsidiaries	28,523	4,812	—	(33,335)	—
Net income (loss)	\$ 28,523	\$ 28,523	\$ 4,812	\$ (33,335)	\$ 28,523
Comprehensive income (loss)	\$ 26,245	\$ 28,274	\$ 2,285	\$ (30,559)	\$ 26,245

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Condensed Consolidating Statement of Cash Flows
Twenty-six Weeks Ended June 29, 2019
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ —	\$ 8,526	\$ 8,320	\$ —	\$ 16,846
Cash flows from investing activities:					
Capital expenditures	—	(16,530)	(1,618)	—	(18,148)
Payments for acquisition of businesses, net of cash acquired	—	(82,430)	—	—	(82,430)
Net cash used in investing activities	—	(98,960)	(1,618)	—	(100,578)
Cash flows from financing activities:					
Repayments of borrowings under revolving credit facility	(95,000)	—	—	—	(95,000)
Borrowings under revolving credit facility	260,000	—	—	—	260,000
Dividends paid	(62,194)	—	—	—	(62,194)
Payments for the repurchase of common stock, net	(10,000)	—	—	—	(10,000)
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	—	(905)	—	—	(905)
Intercompany transactions	(92,806)	98,111	(5,305)	—	—
Net cash provided by (used in) financing activities	—	97,206	(5,305)	—	91,901
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	94	—	94
Net increase in cash and cash equivalents	—	6,772	1,491	—	8,263
Cash and cash equivalents at beginning of period	—	9,871	1,777	—	11,648
Cash and cash equivalents at end of period	\$ —	\$ 16,643	\$ 3,268	\$ —	\$ 19,911

Condensed Consolidating Statement of Cash Flows
Twenty-six Weeks Ended June 30, 2018
(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ —	\$ 89,706	\$ 15,098	\$ —	\$ 104,804
Cash flows from investing activities:					
Capital expenditures	—	(15,229)	(1,979)	—	(17,208)
Net cash used in investing activities	—	(15,229)	(1,979)	—	(17,208)
Cash flows from financing activities:					
Repayments of long-term debt	(150,000)	—	—	—	(150,000)
Dividends paid	(61,888)	—	—	—	(61,888)
Payments for the repurchase of common stock, net	(18,529)	—	—	—	(18,529)
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	—	(1,832)	—	—	(1,832)
Intercompany transactions	230,417	(218,633)	(11,784)	—	—
Net cash used in financing activities	—	(220,465)	(11,784)	—	(232,249)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	987	—	987
Net (decrease) increase in cash and cash equivalents	—	(145,988)	2,322	—	(143,666)
Cash and cash equivalents at beginning of period	—	204,815	1,691	—	206,506
Cash and cash equivalents at end of period	\$ —	\$ 58,827	\$ 4,013	\$ —	\$ 62,840

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Forward-Looking Statements" before Part I of this report and elsewhere in this report. The following discussion should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the thirteen and twenty-six weeks ended June 29, 2019 (second quarter and first two quarters of 2019) included elsewhere in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 29, 2018 (fiscal 2018) included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 26, 2019 (which we refer to as our 2018 Annual Report on Form 10-K).

General

We manufacture, sell and distribute a diverse portfolio of branded, high quality, shelf-stable and frozen foods and household products, many of which have leading regional or national market shares. In general, we position our branded products to appeal to the consumer desiring a high quality and reasonably priced product. We complement our branded product retail sales with institutional and foodservice sales and private label sales.

Our company has been built upon a successful track record of acquisition-driven growth. Our goal is to continue to increase sales, profitability and cash flows through strategic acquisitions, new product development and organic growth. We intend to implement our growth strategy through the following initiatives: expanding our brand portfolio with disciplined acquisitions of complementary branded businesses, continuing to develop new products and delivering them to market quickly, leveraging our multiple channel sales and distribution system and continuing to focus on higher growth customers and distribution channels.

Since 1996, we have successfully acquired and integrated more than 50 brands into our company. Most recently, on May 15, 2019, we acquired the Clabber Girl Corporation, including the *Clabber Girl*, *Rumford*, *Davis*, *Hearth Club* and *Royal* brands of retail baking powder, baking soda and corn starch, and the *Royal* brand of foodservice dessert mixes, from Hulman & Company. We refer to this acquisition in this report as the "*Clabber Girl* acquisition" and unless the context requires otherwise, when we discuss the financial performance of *Clabber Girl*, we are discussing the financial performance of the entire *Clabber Girl* business and not just the *Clabber Girl* brand. On July 16, 2018, we acquired the *McCann's* brand of premium Irish oatmeal from TreeHouse Foods, Inc. We refer to this acquisition in this report as the "*McCann's* acquisition." These acquisitions have been accounted for using the acquisition method of accounting and, accordingly, the assets acquired, liabilities assumed and results of operations of the acquired businesses are included in our consolidated financial statements from the date of acquisition. This acquisition and the application of the acquisition method of accounting affect comparability between periods.

On October 17, 2018, we completed the sale of Pirate Brands, which includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands, to The Hershey Company. We refer to this divestiture in this report as the "Pirate Brands sale." This divestiture and the two acquisitions listed above affect comparability between periods.

We are subject to a number of challenges that may adversely affect our businesses. These challenges, which are discussed below and under the heading "Forward-Looking Statements," include:

Fluctuations in Commodity Prices and Production and Distribution Costs. We purchase raw materials, including agricultural products, meat, poultry, ingredients and packaging materials from growers, commodity processors, other food companies and packaging suppliers located in U.S. and foreign locations. Raw materials and other input costs, such as fuel and transportation, are subject to fluctuations in price attributable to a number of factors. Fluctuations in commodity prices can lead to retail price volatility and intensive price competition, and can influence consumer and trade buying patterns. The cost of raw materials, fuel, labor, distribution and other costs related to our operations can increase from time to time significantly and unexpectedly. For example, we have experienced industry-wide and anticipated significant increases in freight expenses and we expect freight expenses to continue to remain elevated for the foreseeable future.

We experienced moderate net cost increases for raw materials during fiscal 2018 and anticipate higher raw materials cost increases for fiscal 2019. We are currently locked into our supply and prices for a majority of our most significant commodities (excluding, among others, maple syrup) through fiscal 2019. In addition, we expect higher distribution costs industry-wide for fiscal 2019. To the extent we are unable to avoid or offset any present or future cost increases by locking in our costs, implementing cost saving measures or increasing prices to our customers, our operating results could be materially adversely affected. In addition, if input costs begin to decline, customers may look for price reductions in situations where we have locked into purchases at higher costs.

We attempt to manage cost inflation risk by locking in prices through short term supply contracts and advance commodities purchase agreements and by implementing cost savings measures. We also attempt to offset rising input costs by raising sales prices to our customers. For example, in response to inflationary pressure, we announced list price increases for the majority of our products during the first quarter of 2018 and the first quarter of 2019. We saw some benefit from the 2018 list price increases during fiscal 2018 and the first two quarters of 2019, and we expect additional benefit from the 2018 and 2019 list price increases during the remainder of fiscal 2019. However, increases in the prices we charge our customers often lag behind rising input costs and competitive pressures may limit our ability to quickly raise prices, or to raise prices at all, in response to rising costs. Moreover, customer and consumer acceptance of price increases cannot be assured.

Consolidation in the Retail Trade and Consequent Inventory Reductions. As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers may demand lower pricing and increased promotional programs. These customers are also reducing their inventories and increasing their emphasis on private label products.

Changing Consumer Preferences. Consumers in the market categories in which we compete frequently change their taste preferences, dietary habits and product packaging preferences.

Consumer Concern Regarding Food Safety, Quality and Health. The food industry is subject to consumer concerns regarding the safety and quality of certain food products. If consumers in our principal markets lose confidence in the safety and quality of our food products, even as a result of a product liability claim or a product recall by a food industry competitor, our business could be adversely affected.

Fluctuations in Currency Exchange Rates. Our foreign sales are primarily to customers in Canada. Our sales to Canada are generally denominated in Canadian dollars and our sales for export to other countries are generally denominated in U.S. dollars. During the first two quarters of 2019 and 2018, our net sales to customers in foreign countries represented approximately 7.6% and 6.9%, respectively, of our total net sales. We also purchase a significant majority of our maple syrup requirements from suppliers located in Québec, Canada. Any weakening of the U.S. dollar against the Canadian dollar could significantly increase our costs relating to the production of our maple syrup products to the extent we have not purchased Canadian dollars in advance of any such weakening of the U.S. dollar or otherwise entered into a currency hedging arrangement in advance of any such weakening of the U.S. dollar. These increased costs would not be fully offset by the positive impact the change in the relative strength of the Canadian dollar versus the U.S. dollar would have on our net sales in Canada. Our purchases of raw materials from other foreign suppliers are generally denominated in U.S. dollars. We also operate a manufacturing facility in Irapuato, Mexico for the manufacture of *Green Giant* frozen products and are as a result exposed to fluctuations in the Mexican peso. Our results of operations could be adversely impacted by changes in foreign currency exchange rates. Costs and expenses in Mexico are recognized in local foreign currency, and therefore we are exposed to potential gains or losses from the translation of those amounts into U.S. dollars for consolidation into our financial statements.

To confront these challenges, we continue to take steps to build the value of our brands, to improve our existing portfolio of products with new product and marketing initiatives, to reduce costs through improved productivity, to address consumer concerns about food safety, quality and health and to favorably manage currency fluctuations.

Critical Accounting Policies; Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States (GAAP) requires our management to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates and assumptions made by management involve trade and consumer promotion expenses; allowances for excess, obsolete and unsaleable inventories; pension benefits; acquisition accounting fair value allocations; the recoverability of goodwill, other intangible assets, property, plant and equipment, and deferred tax assets; the determination of the useful life of customer relationship and finite-lived trademark intangibles; and the accounting for share-based compensation expense. Actual results could differ significantly from these estimates and assumptions.

In our 2018 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. There have been no material changes to these policies from those disclosed in our 2018 Annual Report on Form 10-K.

U.S. Tax Act

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, which we refer to as the “U.S. Tax Act.” The changes in the U.S. Tax Act are broad and complex and we continue to examine the impact the U.S. Tax Act may have on our business and financial results. The U.S. Tax Act contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017.

Under FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes, we are required to revalue any deferred tax assets or liabilities in the period of enactment of change in tax rates. The U.S. Tax Act lowers the federal corporate income tax rate from 35% to 21%. In the fourth quarter of 2017 we revalued our prior year U.S. deferred tax assets and liabilities at the lower U.S. corporate income tax rate, which resulted in a discrete tax benefit of approximately \$133.3 million. This tax benefit was partially offset by an increase in our blended state rate of approximately \$5.8 million and a repatriation expense of \$0.9 million.

The reduction in the corporate income tax rate from 35% to 21% was effective for our fiscal 2019 and 2018. Our consolidated effective tax rate for the first two quarters of 2019 and fiscal 2018 was 25.8% and 22.4%, respectively.

We also expect to realize a cash tax benefit for future bonus depreciation on certain business additions, which, together with the reduced income tax rate, we expect to reduce our cash income tax payments.

The U.S. Tax Act also limits the deduction for net interest expense incurred by a corporate taxpayer to 30% of the taxpayer’s adjusted taxable income. Although we currently expect that our interest expense may exceed 30% of our adjusted taxable income, at this time we do not believe this limitation will have a material adverse impact on our business or financial results because any interest that is non-deductible may be carried forward indefinitely.

The U.S. Treasury’s proposed 2018 regulations also seek to clarify the application of the U.S. Tax Act provisions for the limitation of interest expense, including treatment of depreciation and other deductions in arriving at adjusted taxable income and application of the rules to controlled foreign affiliates. These regulations remain open for comment and are not effective until published in the federal register. As a result, we will monitor their impact to our filing positions and will record the impacts as discrete income tax expense adjustments in the period that the guidance is finalized.

The SEC issued guidance on December 23, 2017 providing a one-year measurement period from a registrant’s reporting period that includes the U.S. Tax Act’s enactment date to allow the registrant sufficient time to obtain, prepare and analyze information to complete the accounting required under ASC 740. As of June 29, 2019, we have recorded all known and estimable impacts of the U.S. Tax Act that are effective for fiscal 2019.

The ultimate impact of the U.S. Tax Act on our reported results in fiscal 2019 and beyond may differ from the estimates provided in this report, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the U.S. Tax Act different from that currently contemplated.

Results of Operations

The following table sets forth the percentages of net sales represented by selected items for the second quarter and first two quarters of 2019 and 2018 reflected in our consolidated statements of operations. The comparisons of financial results are not necessarily indicative of future results:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Statement of Operations Data:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	75.3 %	79.1 %	77.0 %	77.5 %
Gross profit	24.7 %	20.9 %	23.0 %	22.5 %
Operating expenses:				
Selling, general and administrative expenses	10.7 %	9.6 %	10.0 %	9.7 %
Amortization expense	1.2 %	1.2 %	1.2 %	1.2 %
Operating income	12.8 %	10.1 %	11.8 %	11.6 %
Other income and expenses:				
Interest expense, net	6.2 %	7.1 %	5.9 %	6.8 %
Loss on extinguishment of debt	— %	0.1 %	— %	0.4 %
Other (income) expense	(0.1)%	0.1 %	(0.1)%	(0.2)%
Income before income tax expense	6.7 %	2.8 %	6.0 %	4.6 %
Income tax expense	1.8 %	0.7 %	1.5 %	1.1 %
Net income	4.9 %	2.1 %	4.5 %	3.5 %

As used in this section, the terms listed below have the following meanings:

Net Sales. Our net sales represents gross sales of products shipped to customers plus amounts charged to customers for shipping and handling, less cash discounts, coupon redemptions, slotting fees and trade promotional spending, including marketing development funds.

Gross Profit. Our gross profit is equal to our net sales less cost of goods sold. The primary components of our cost of goods sold are cost of internally manufactured products, purchases of finished goods from co-packers, a portion of our warehousing expenses plus freight costs to our distribution centers and to our customers.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses include costs related to selling our products, as well as all other general and administrative expenses. Some of these costs include administrative, marketing and internal sales force employee compensation and benefits costs, consumer advertising programs, brokerage costs, a portion of our warehousing expenses, information technology and communication costs, office rent, utilities, supplies, professional services, severance, acquisition/divestiture-related expenses and other general corporate expenses.

Amortization Expense. Amortization expense includes the amortization expense associated with customer relationships, finite-lived trademarks and other intangibles.

Net Interest Expense. Net interest expense includes interest relating to our outstanding indebtedness, amortization of bond discount and amortization of deferred debt financing costs (net of interest income).

Loss on Extinguishment of Debt. Loss on extinguishment of debt includes costs relating to the retirement of indebtedness, including repurchase premium, if any, and write-off of deferred debt financing costs and unamortized discount, if any.

Other (Income) Expense. Other (income) expense includes income or expense resulting from the remeasurement of monetary assets denominated in a foreign currency into U.S. dollars for financial reporting purposes and the impact of the recently adopted presentation of net periodic pension cost and net periodic post-retirement benefit cost below operating profit, in accordance with the FASB ASU issued in March 2017. See Note 2, “Summary of Significant Accounting Policies — Newly Adopted Accounting Standards,” for further details.

Non-GAAP Financial Measures

Certain disclosures in this report include non-GAAP financial measures. A non-GAAP financial measure is defined as a numerical measure of our financial performance that excludes or includes amounts so as to be different from the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated balance sheets and related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows.

Base Business Net Sales. Base business net sales is a non-GAAP financial measure used by management to measure operating performance. We define base business net sales as our net sales excluding (1) the net sales of acquisitions until at least one full quarter of net sales from such acquisitions are included in both comparable periods, (2) net sales of discontinued or divested brands and (3) net sales of our IQF bulk rice products, see footnote 2 to the table below. The portion of current period net sales attributable to recent acquisitions for which there is not at least one full quarter of net sales in the comparable period of the prior year is excluded. For each acquisition, the excluded period starts at the beginning of the most recent fiscal period being compared and ends on the last day of the quarter in which the first anniversary of the date of acquisition occurs, and the period from the date of acquisition to the end of the quarter in which the acquisition occurred. For discontinued or divested brands, the entire amount of net sales is excluded from each fiscal period being compared. Management has included this financial measure because it provides useful and comparable trend information regarding the results of our business without the effect of the timing of acquisitions and the effect of discontinued or divested brands.

A reconciliation of base business net sales to reported net sales for the second quarter and first two quarters of 2019 and 2018 follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales	\$ 371,197	\$ 388,378	\$ 783,931	\$ 820,107
Net sales from acquisitions ⁽¹⁾	(10,606)	—	(13,875)	—
Net sales of non-branded IQF bulk rice products ⁽²⁾	—	(559)	—	(1,137)
Net sales from divested and discontinued brands ⁽³⁾	—	(25,476)	—	(47,304)
Base business net sales	<u>\$ 360,591</u>	<u>\$ 362,343</u>	<u>\$ 770,056</u>	<u>\$ 771,666</u>

- (1) Reflects net sales for *McCann's* and *Clabber Girl* for the second quarter and first two quarters of 2019. *McCann's* was acquired on July 16, 2018 and *Clabber Girl* was acquired on May 15, 2019.
- (2) Reflects net sales of our non-branded individually quick frozen (IQF) bulk rice products, which is a product line we acquired as part of the *Green Giant* acquisition, and which we are excluding from net sales for the purposes of calculating base business net sales because we do not consider the non-branded IQF bulk rice products to be part of our core business or material. We discontinued the sale of non-branded IQF bulk rice products during the fourth quarter of 2018.
- (3) Reflects net sales of *Pirate Brands* and *French's*® seasoning mixes. We completed the divestiture of *Pirate Brands* on October 17, 2018. We discontinued the sale of *French's* products during the third quarter of 2018 following the expiration of a licensing agreement.

EBITDA and Adjusted EBITDA. EBITDA and adjusted EBITDA are non-GAAP financial measures used by management to measure operating performance. We define EBITDA as net income before net interest expense, income taxes, depreciation and amortization and loss on extinguishment of debt. We define adjusted EBITDA as EBITDA adjusted for cash and non-cash acquisition/divestiture-related expenses, gains and losses (which may include third party fees and expenses, integration, restructuring and consolidation expenses, amortization of acquired inventory fair value step-up, and gains and losses on the sale of assets); non-recurring expenses, gains and losses, including severance and other expenses relating to a workforce reduction; and the non-cash accounting impact of our inventory reduction plan. Management believes that it is useful to eliminate these items because it allows management to focus on what it deems to be a more reliable indicator of ongoing operating performance and our ability to generate cash flow from operations. We use EBITDA and adjusted EBITDA in our business operations to, among other things, evaluate our operating performance, develop budgets and measure our performance against those budgets, determine employee bonuses and evaluate our cash flows in terms of cash needs. We also present EBITDA and adjusted EBITDA because we believe they are useful indicators of our historical debt capacity and ability to service debt and because covenants in our credit agreement and our senior notes indentures contain ratios based on these measures. As a result, reports used by internal management during monthly operating reviews feature the EBITDA and adjusted EBITDA metrics. However, management uses these metrics in conjunction with traditional GAAP operating performance and liquidity measures as part of its overall assessment of company performance and liquidity, and therefore does not place undue reliance on these measures as its only measures of operating performance and liquidity.

EBITDA and adjusted EBITDA are not recognized terms under GAAP and do not purport to be alternatives to operating income, net income or any other GAAP measure as an indicator of operating performance. EBITDA and adjusted EBITDA are not complete net cash flow measures because EBITDA and adjusted EBITDA are measures of liquidity that do not include reductions for cash payments for an entity's obligation to service its debt, fund its working capital, capital expenditures and acquisitions and pay its income taxes and dividends. Rather, EBITDA and adjusted EBITDA are two potential indicators of an entity's ability to fund these cash requirements. EBITDA and adjusted EBITDA are not complete measures of an entity's profitability because they do not include certain costs and expenses and gains and losses described above. Because not all companies use identical calculations, this presentation of EBITDA and adjusted EBITDA may not be comparable to other similarly titled measures of other companies. However, EBITDA and adjusted EBITDA can still be useful in evaluating our performance against our peer companies because management believes these measures provide users with valuable insight into key components of GAAP amounts.

A reconciliation of EBITDA and adjusted EBITDA to net income and to net cash provided by operating activities for the second quarter and first two quarters of 2019 and 2018 along with the components of EBITDA and adjusted EBITDA follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 18,251	\$ 7,976	\$ 35,042	\$ 28,523
Income tax expense	6,505	2,775	12,189	9,377
Interest expense, net	23,179	27,607	46,253	55,913
Depreciation and amortization	14,557	13,343	28,420	26,407
Loss on extinguishment of debt ⁽¹⁾	—	546	—	3,324
EBITDA	62,492	52,247	121,904	123,544
Acquisition/divestiture-related and non-recurring expenses ⁽²⁾	4,823	1,623	8,519	4,892
Inventory reduction plan impact ⁽³⁾	3,660	20,576	16,382	35,426
Adjusted EBITDA	70,975	74,446	146,805	163,862
Income tax expense	(6,505)	(2,775)	(12,189)	(9,377)
Interest expense, net	(23,179)	(27,607)	(46,253)	(55,913)
Acquisition/divestiture-related and non-recurring expenses ⁽²⁾	(4,823)	(1,623)	(8,519)	(4,892)
Inventory reduction plan impact ⁽³⁾	(3,660)	(20,576)	(16,382)	(35,426)
Write-off of property, plant and equipment	12	8	13	29
Deferred income taxes	3,665	2,690	7,240	7,511
Amortization of deferred financing costs and bond discount	872	1,431	1,745	2,976
Share-based compensation expense	1,384	1,759	1,964	2,597
Changes in assets and liabilities, net of effects of business combinations	(72,239)	3,307	(57,578)	33,437
Net cash provided by (used in) operating activities ⁽⁴⁾	<u>\$ (33,498)</u>	<u>\$ 31,060</u>	<u>\$ 16,846</u>	<u>\$ 104,804</u>

- (1) Loss on extinguishment of debt for the second quarter of 2018 included the write-off of deferred debt financing costs and unamortized discount of \$0.4 million and \$0.1 million, respectively, relating to the prepayment of outstanding borrowings under our then outstanding tranche B term loans. Loss on extinguishment of debt for the first two quarters of 2018 included the write-off of deferred debt financing costs and unamortized discount of \$2.8 million and \$0.5 million, respectively, relating to the prepayment of borrowings under the tranche B term loans.
- (2) Acquisition/divestiture-related and non-recurring expenses for the second quarter and first two quarters of 2019 of \$4.8 million and \$8.5 million, respectively, primarily include acquisition expenses for the *Clabber Girl* acquisition, divestiture expenses for the Pirate Brands sale and severance and other expenses primarily relating to a workforce reduction. Acquisition/divestiture-related and non-recurring expenses for the second quarter and first two quarters of 2018 of \$1.6 million and \$4.9 million, respectively, primarily included acquisition and integration expenses for the *Green Giant*, spices & seasonings, *Victoria* and *Back to Nature* acquisitions.
- (3) For the second quarter and first two quarters of 2019, inventory reduction plan impact of \$3.7 million and \$16.4 million, respectively, includes the underutilization of our manufacturing facilities as we reduced inventory during the implementation of an inventory reduction plan. For the second quarter and first two quarters of 2018, the inventory reduction plan impact of \$20.6 million and \$35.4 million, respectively, included fixed manufacturing, warehouse and other corporate overhead costs associated with inventory purchased and converted into finished goods in fiscal 2017 and sold in the second quarter and first two quarters of 2018 as part of our inventory reduction plan.
- (4) Our divestiture of Pirate Brands during the fourth quarter of 2018 resulted in a gain on sale during 2018 of approximately \$176.4 million. The gain on sale negatively impacted our income taxes for 2019 by approximately \$71.8 million, which includes a cash tax payment we made during the second quarter of 2019 of \$43.2 million and a cash tax benefit we otherwise would have expected to receive of approximately \$28.6 million. Excluding the negative tax impact of the gain on sale, our net cash provided by operating activities for the second quarter and first two quarters of 2019 would have been approximately \$38.3 million and \$88.6 million, respectively.

Adjusted Net Income and Adjusted Diluted Earnings Per Share. Adjusted net income and adjusted diluted earnings per share are non-GAAP financial measures used by management to measure operating performance. We define adjusted net income and adjusted diluted earnings per share as net income and diluted earnings per share adjusted for certain items that affect comparability. These non-GAAP financial measures reflect adjustments to net income and diluted earnings per share to eliminate the items identified in the reconciliation below. This information is provided in order to allow investors to make meaningful comparisons of our operating performance between periods and to view our business from the same perspective as our management. Because we cannot predict the timing and amount of these items, management does not consider these items when evaluating our company's performance or when making decisions regarding allocation of resources.

A reconciliation of adjusted net income and adjusted diluted earnings per share to net income for the second quarter and first two quarters of 2019 and 2018 along with the components of adjusted net income and adjusted diluted earnings per share follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 18,251	\$ 7,976	\$ 35,042	\$ 28,523
Loss on extinguishment of debt, net of tax ⁽¹⁾	—	412	—	2,514
Acquisition/divestiture-related and non-recurring expenses, net of tax ⁽²⁾	3,578	1,223	6,320	3,697
Inventory reduction plan impact, net of tax ⁽³⁾	2,715	15,508	12,154	26,746
Adjusted net income	<u>\$ 24,544</u>	<u>\$ 25,119</u>	<u>\$ 53,516</u>	<u>\$ 61,480</u>
Adjusted diluted earnings per share	<u>\$ 0.38</u>	<u>\$ 0.38</u>	<u>\$ 0.82</u>	<u>\$ 0.92</u>

- (1) Loss on extinguishment of debt for the second quarter of 2018 included the write-off of deferred debt financing costs and unamortized discount of \$0.3 million, net of tax, and \$0.1 million, net of tax, respectively, relating to the prepayment of borrowings under our then outstanding tranche B term loans. Loss on extinguishment of debt for the first two quarters of 2018 included the write-off of deferred debt financing costs and unamortized discount of \$2.1 million, net of tax, and \$0.4 million, net of tax, respectively, relating to the prepayment of borrowings under the tranche B term loans.
- (2) Acquisition/divestiture-related and non-recurring expenses for the second quarter and first two quarters of 2019 primarily include acquisition expenses for the *Clabber Girl* acquisition, divestiture expenses for the Pirate Brands sale and severance and other expenses primarily relating to a workforce reduction. Acquisition/divestiture-related and non-recurring expenses for the second quarter and first two quarters of 2018 primarily included acquisition and integration expenses for the *Green Giant*, spices & seasonings, *Victoria* and *Back to Nature* acquisitions.
- (3) For the second quarter and first two quarters of 2019, inventory reduction plan impact of \$3.7 million (or \$2.7 million net of taxes) and \$16.4 million (or \$12.2 million net of taxes), respectively, includes the underutilization of our manufacturing facilities as we reduced inventory during the implementation of an inventory reduction plan. For the second quarter and first two quarters of 2018, the inventory reduction plan impact of \$20.6 million (or \$15.5 million net of taxes) and \$35.4 million (or \$26.7 million net of taxes), respectively, included fixed manufacturing, warehouse and other corporate overhead costs associated with inventory purchased and converted into finished goods in fiscal 2017 and sold in the second quarter and first two quarters of 2018 as part of our inventory reduction plan.

Second quarter of 2019 compared to the second quarter of 2018

Net Sales. We generated net sales of \$371.2 million for the second quarter of 2019, compared to \$388.4 million for the second quarter of 2018. The decrease was primarily attributable to the Pirate Brands divestiture, offset in part by the *McCann's* and *Clabber Girl* acquisitions. Net sales of Pirate Brands, which was sold on October 17, 2018 and therefore not part of our second quarter of 2019 results, were \$25.2 million during the second quarter of 2018. Net sales of *McCann's*, which was acquired on July 16, 2018 and therefore not part of our second quarter of 2018 results, contributed \$2.2 million to our net sales for the second quarter of 2019. Net sales of *Clabber Girl*, which was acquired on May 15, 2019 and therefore not part of our second quarter of 2018 results, contributed \$8.4 million to our net sales for the second quarter of 2019.

Base business net sales for the second quarter of 2019 decreased \$1.7 million, or 0.5%, to \$360.6 million from \$362.3 million for the second quarter of 2018. Base business net sales benefited from an increase in net pricing of \$4.0 million, or 1.1% of base business net sales, offset by a decrease in unit volume for the base business of \$5.5 million and the negative impact of foreign currency of \$0.2 million.

Net sales of all *Green Giant* products in the aggregate (including *Le Sueur*) increased \$8.3 million, or 7.9%, in the second quarter of 2019, as compared to the second quarter of 2018, as net sales in both frozen and shelf stable products increased. Net sales of *Green Giant* frozen increased \$3.5 million, or 4.1%, for the quarter. Net sales of *Green Giant* shelf stable (including *Le Sueur*) increased \$4.8 million, or 23.5%, for the second quarter of 2019.

See Note 17, “Net Sales by Brand,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report, for detailed information regarding total net sales for each of our brands whose net sales for the first two quarters of 2019 or fiscal 2018 represent 3% or more of our total net sales for those periods, and for “all other brands” in the aggregate. The following chart sets forth the most significant base business net sales increases and decreases by brand for those brands for the second quarter of 2019:

Brand:	Base Business Net Sales Increase (Decrease)	
	Dollars (in millions)	Percentage
<i>Green Giant</i> - shelf stable ⁽¹⁾	\$ 4.8	23.5 %
<i>Green Giant</i> - frozen	3.5	4.1 %
<i>Maple Grove Farms of Vermont</i>	0.7	4.1 %
Spices & Seasonings ⁽²⁾	(2.4)	(3.8)%
<i>Back to Nature</i>	(1.6)	(9.2)%
<i>Cream of Wheat</i>	(0.1)	(0.8)%
<i>Mrs. Dash</i>	(0.1)	(0.6)%
<i>Ortega</i>	(0.1)	(0.1)%
All other brands	(6.4)	(4.2)%
Base business net sales decrease	<u>\$ (1.7)</u>	<u>(0.5)%</u>

(1) Includes net sales of the *Le Sueur* brand.

(2) Includes net sales for multiple brands acquired as part of the spices & seasonings acquisition that we completed on November 21, 2016. Does not include net sales for *Mrs. Dash* and our other legacy spices & seasonings brands or net sales for French's® seasoning mixes, which we discontinued during the third quarter of 2018 following the expiration of a licensing agreement.

Gross Profit. Gross profit was \$91.9 million for the second quarter of 2019, or 24.7% of net sales. Excluding the negative impact of \$4.9 million of acquisition/divestiture-related and non-recurring expenses during the second quarter of 2019, which includes expenses related to our inventory reduction plan, our gross profit would have been \$96.8 million, or 26.0% of net sales. Gross profit was \$81.2 million for the second quarter of 2018, or 20.9% of net sales. Excluding the negative impact of \$20.1 million of acquisition-related and non-recurring charges during the second quarter of 2018, which includes expenses relating to our inventory reduction plan, our gross profit would have been \$101.3 million, or 26.1% of net sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$2.6 million, or 6.9%, to \$39.9 million for the second quarter of 2019 from \$37.3 million for the second quarter of 2018. The increase was composed of increases in general and administrative expenses of \$1.9 million and acquisition/divestiture-related and non-recurring expenses of \$1.5 million, partially offset by decreases in warehousing expenses of \$0.4 million, consumer marketing expenses of \$0.3 million and selling expenses of \$0.1 million. Expressed as a percentage of net sales, selling, general and administrative expenses increased by 1.1 percentage points to 10.7% for the second quarter of 2019, compared to 9.6% for the second quarter of 2018.

Amortization Expense. Amortization expense remained flat at \$4.6 million for both the second quarter of 2019 and the second quarter of 2018 due to the Pirate Brands sale completed in fiscal 2018, offset by the *Clabber Girl* acquisition completed in fiscal 2019 and the *McCann's* acquisition completed in fiscal 2018.

Operating Income. As a result of the foregoing, operating income increased \$8.1 million, or 20.7%, to \$47.4 million for the second quarter of 2019 from \$39.3 million for the second quarter of 2018. Operating income expressed as a percentage of net sales increased to 12.8% in the second quarter of 2019 from 10.1% in the second quarter of 2018.

Net Interest Expense. Net interest expense decreased \$4.4 million, or 16.0%, to \$23.2 million for the second quarter of 2019 from \$27.6 million in the second quarter of 2018. The decrease was primarily attributable to a reduction in long-term debt outstanding during the second quarter of 2019 as compared to the second quarter of 2018, primarily as a result of the use of the net proceeds from the sale of Pirate Brands to prepay long-term debt during the fourth quarter of 2018, which was partially offset by additional borrowings made in the second quarter of 2019 to fund the *Clabber Girl* acquisition. At the end of the second quarter of 2019, we had long-term debt outstanding of \$1.803 billion, compared to \$2.074 billion at the end of the second quarter of 2018, a decrease of \$271.2 million, or 13.1%. See “—Liquidity and Capital Resources — *Debt*” below.

Loss on Extinguishment of Debt. There was no loss on extinguishment of debt for the second quarter of 2019, compared to a loss on extinguishment of debt for the second quarter of 2018 of \$0.5 million, which included the write-off of deferred debt financing costs and unamortized discount of \$0.4 million and \$0.1 million, respectively, relating to the repayment of \$25.0 million aggregate principal amount of our then outstanding tranche B term loans.

Other (Income) Expense. Other (income) expense for the second quarter of 2019 and 2018 includes remeasurement of monetary assets denominated in a foreign currency into U.S. dollars of \$0.2 million income and \$1.0 million expense, respectively. Other (income) expense for the second quarter of 2019 and 2018 also includes the impact of the recently adopted presentation of net periodic pension cost and net periodic post-retirement benefit costs below operating profit, in the amount of \$0.3 income million and \$0.6 million income, respectively.

Income Tax Expense. Income tax expense increased \$3.7 million to \$6.5 million for the second quarter of 2019 from \$2.8 million for the second quarter of 2018. Our effective tax rate was 26.3% for the second quarter of 2019 and 25.8% for the second quarter of 2018. See “U.S. Tax Act” above.

First two quarters of 2019 compared to the first two quarters of 2018

Net Sales. We generated net sales of \$783.9 million for the first two quarters of 2019, compared to \$820.1 million for the first two quarters of 2018. The decrease was primarily attributable to the Pirate Brands divestiture, offset in part by the *McCann's* and *Clabber Girl* acquisitions. Net sales of Pirate Brands, which was sold on October 17, 2018 and therefore not part of our first two quarters of 2019 results, were \$46.2 million during the first two quarters of 2018. Net sales of *McCann's*, which was acquired on July 16, 2018 and therefore not part of our first two quarters of 2018 results, contributed \$5.5 million to our net sales for the first two quarters of 2019. Net sales of *Clabber Girl*, which was acquired on May 15, 2019 and therefore not part of our first two quarters of 2018 results, contributed \$8.4 million to our net sales for the first two quarters of 2019.

Base business net sales for the first two quarters of 2019 decreased \$1.6 million, or 0.2%, to \$770.1 million from \$771.7 million for the first two quarters of 2018. Base business net sales benefited from an increase in net pricing of \$11.3 million, or 1.5% of base business net sales, offset by a decrease in unit volume for the base business of \$12.7 million and the negative impact of foreign currency of \$0.2 million.

Net sales of all *Green Giant* products in the aggregate (including *Le Sueur*) increased \$15.2 million, or 6.5%, in the first two quarters of 2019, as compared to the first two quarters of 2018, as net sales in both frozen and shelf stable products increased. Net sales of *Green Giant* frozen increased \$9.4 million, or 5.3%, for the first two quarters of 2019. Net sales of *Green Giant* shelf stable (including *Le Sueur*) increased \$5.8 million, or 10.5%, for the first two quarters of 2019.

See Note 17, “Net Sales by Brand,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report, for detailed information regarding total net sales for each of our brands whose net sales for the first two quarters of 2019 or fiscal 2018 represent 3% or more of our total net sales for those periods, and for “all other brands” in the aggregate. The following chart sets forth the most significant base business net sales increases and decreases by brand for those brands for the first two quarters of 2019:

Brand:	Base Business Net Sales Increase (Decrease)	
	Dollars (in millions)	Percentage
<i>Green Giant</i> - frozen	\$ 9.4	5.3 %
<i>Green Giant</i> - shelf stable ⁽¹⁾	5.8	10.5 %
<i>Maple Grove Farms of Vermont</i>	1.7	4.8 %
<i>Back to Nature</i>	(5.0)	(13.3)%
<i>Mrs. Dash</i>	(1.6)	(5.2)%
<i>Cream of Wheat</i>	(1.1)	(3.7)%
Spices & Seasonings ⁽²⁾	(1.1)	(0.9)%
<i>Ortega</i>	(0.6)	(0.9)%
All other brands	(9.1)	(4.4)%
Base business net sales decrease	<u>\$ (1.6)</u>	<u>(0.2)%</u>

(1) Includes net sales of the *Le Sueur* brand.

(2) Includes net sales for multiple brands acquired as part of the spices & seasonings acquisition that we completed on November 21, 2016. Does not include net sales for *Mrs. Dash* and our other legacy spices & seasonings brands or net sales for French’s® seasoning mixes, which we discontinued during the third quarter of 2018 following the expiration of a licensing agreement.

Gross Profit. Gross profit was \$179.9 million for the first two quarters of 2019, or 23.0% of net sales. Excluding the negative impact of \$18.0 million of acquisition/divestiture-related and non-recurring expenses during the first two quarters of 2019, which includes expenses related to our inventory reduction plan, our gross profit would have been \$197.9 million, or 25.2% of net sales. Gross profit was \$184.5 million for the first two quarters of 2018, or 22.5% of net sales. Excluding the negative impact of \$36.2 million of acquisition-related and non-recurring charges during the first two quarters of 2018, which includes expenses relating to our inventory reduction plan, our gross profit would have been \$220.7 million, or 26.9% of net sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased \$1.6 million, or 2.1%, to \$78.2 million for the first two quarters of 2019 from \$79.8 million for the first two quarters of 2018. The decrease was composed of decreases in consumer marketing expenses of \$3.6 million, selling expenses of \$1.7 million and warehousing expenses of \$0.6 million, partially offset by increases in acquisition/divestiture-related and non-recurring expenses of \$2.9 million and general and administrative expenses of \$1.4 million. Expressed as a percentage of net sales, selling, general and administrative expenses increased by 0.3 percentage points to 10.0% for the first two quarters of 2019, compared to 9.7% for the first two quarters of 2018.

Amortization Expense. Amortization expense decreased \$0.1 million to \$9.1 million for the first two quarters of 2019 from \$9.2 million for the first two quarters of 2018 due to the Pirate Brands sale completed in fiscal 2018, partially offset by the *Clabber Girl* acquisition completed in fiscal 2019 and the *McCann’s* acquisition completed in fiscal 2018.

Operating Income. As a result of the foregoing, operating income decreased \$2.8 million, or 2.9%, to \$92.7 million for the first two quarters of 2019 from \$95.5 million for the first two quarters of 2018. Operating income expressed as a percentage of net sales increased to 11.8% in the first two quarters of 2019 from 11.6% in the first two quarters of 2018.

Net Interest Expense. Net interest expense decreased \$9.6 million, or 17.3%, to \$46.3 million for the first two quarters of 2019 from \$55.9 million in the first two quarters of 2018. The decrease was primarily attributable to a reduction in long-term debt outstanding during the first two quarters of 2019 as compared to the first two quarters of 2018, primarily as a result of the use of the net proceeds from the sale of Pirate Brands to prepay long-term debt during the fourth quarter of 2018 and other prepayments of long-term debt made during the first and second quarters of 2018, which was partially offset by additional borrowings made in the second quarter of 2019 to fund the *Clabber Girl* acquisition.

Loss on Extinguishment of Debt. There was no loss on extinguishment of debt for the first two quarters of 2019, compared to a loss on extinguishment of debt for the first two quarters of 2018 of \$3.3 million, which included the write-off of deferred debt financing costs and unamortized discount of \$2.8 million and \$0.5 million, respectively, relating to the repayment of \$150.0 million aggregate principal amount of our then outstanding tranche B term loans.

Other Income. Other income for the first two quarters of 2019 and 2018 includes remeasurement of monetary assets denominated in a foreign currency into U.S. dollars of \$0.3 million and \$0.5 million, respectively. Other income for the first two quarters of 2019 and 2018 also includes the impact of the recently adopted presentation of net periodic pension cost and net periodic post-retirement benefit costs below operating profit, in the amount of \$0.5 million and \$1.2 million, respectively.

Income Tax Expense. Income tax expense increased \$2.8 million to \$12.2 million for the first two quarters of 2019 from \$9.4 million for the first two quarters of 2018. Our effective tax rate was 25.8% for the first two quarters of 2019 and 24.7% for the first two quarters of 2018. See “U.S. Tax Act” above.

Liquidity and Capital Resources

Our primary liquidity requirements include debt service, capital expenditures and working capital needs. See also, “Dividend Policy” and “Commitments and Contractual Obligations” below. We fund our liquidity requirements, as well as our dividend payments and financing for acquisitions, primarily through cash generated from operations and external sources of financing, including our revolving credit facility.

Cash Flows

Net cash provided by operating activities decreased \$88.0 million to \$16.8 million for the first two quarters of 2019 from \$104.8 million for the first two quarters of 2018. The decrease in net cash provided by operating activities was primarily due to the negative impact to income taxes resulting from the Pirate Brands sale of approximately \$71.8 million, which includes a cash tax payment of \$43.2 million made during the second quarter of 2019 and a cash tax benefit we otherwise would have expected to receive of approximately \$28.6 million. The decrease in net cash provided by operating activities was also due to unfavorable working capital comparisons to the first two quarters of 2018 (primarily comprised of inventories and trade accounts payable, partially offset by a favorable change in trade accounts receivable). There was a decrease in inventory of \$10.3 million for the first two quarters of 2019 as compared to a decrease of \$51.7 million during the first two quarters of 2018, which was primarily attributable to our inventory reduction plan. The decrease in net cash provided by operating activities was also due to the timing of payments received in 2018 from post-acquisition transition services agreements.

Net cash used in investing activities for the first two quarters of 2019 increased \$83.4 million to \$100.6 million from \$17.2 million for the first two quarters of 2018. The increase was primarily attributable to the *Clabber Girl* acquisition, for which we paid \$82.4 million, net of cash acquired of \$2.2 million, during the second quarter of 2019, compared to no payments for acquisitions of businesses during the first two quarters of 2018.

Net cash provided by financing activities for the first two quarters of 2019 increased \$324.1 million to \$91.9 million net cash provided by financing activities as compared to \$232.2 million net cash used in financing activities for the first two quarters of 2018. The increase was primarily driven by net borrowings under our revolving credit facility of \$165.0 million during the first two quarters of 2019, compared to no net borrowings under our revolving credit facility during the first two quarters of 2018, partially offset by the repayment of \$150.0 million of tranche B term loans during the first two quarters of 2018.

We believe that we will realize a benefit to our cash taxes payable from amortization of our trademarks, goodwill and other intangible assets for the taxable years 2019 through 2034. If there is a change in U.S. federal tax policy that reduces any of these available deductions or results in an increase in our corporate tax rate, our cash taxes payable may increase further, which could significantly reduce our future liquidity and impact our ability to make interest and dividend payments.

Dividend Policy

Our dividend policy reflects a basic judgment that our stockholders are better served when we distribute a substantial portion of our cash available to pay dividends to them instead of retaining it in our business. Under this policy, a substantial portion of the cash generated by our company in excess of operating needs, interest and principal payments on indebtedness, capital expenditures sufficient to maintain our properties and other assets is distributed as regular quarterly cash dividends to the holders of our common stock and not retained by us. We have paid dividends every quarter since our initial public offering in October 2004.

For the first two quarters of 2019 and 2018, we had net cash provided by operating activities of \$16.8 million and \$104.8 million, respectively, and distributed as dividends \$62.2 million and \$61.9 million, respectively. Based upon our current dividend rate of \$1.90 per share per annum and our current number of outstanding shares, we expect our aggregate dividend payments in fiscal 2019 to be approximately \$124.3 million.

Our dividend policy is based upon our current assessment of our business and the environment in which we operate, and that assessment could change based on competitive or other developments (which could, for example, increase our need for capital expenditures or working capital), new acquisition opportunities or other factors. Our board of directors is free to depart from or change our dividend policy at any time and could do so, for example, if it was to determine that we have insufficient cash to take advantage of growth opportunities.

Acquisitions

Our liquidity and capital resources have been significantly impacted by acquisitions and may be impacted in the foreseeable future by additional acquisitions. As discussed elsewhere in this report, as part of our growth strategy we plan to expand our brand portfolio with disciplined acquisitions of complementary brands. We have historically financed acquisitions by incurring additional indebtedness, issuing equity and/or using cash flows from operating activities. Our interest expense has over time increased as a result of additional indebtedness we have incurred in connection with acquisitions and will increase with any additional indebtedness we may incur to finance future acquisitions. Although we may subsequently issue equity and use the proceeds to repay all or a portion of the additional indebtedness incurred to finance an acquisition and reduce our interest expense, the additional shares of common stock would increase the amount of cash flows from operating activities necessary to fund dividend payments.

We financed the *Clabber Girl* acquisition, completed in May 2019, and the *McCann's* acquisition, completed in July 2018, with cash on hand and additional revolving loans under our existing credit facility. The impact of future acquisitions, whether financed with additional indebtedness or otherwise, may have a material impact on our liquidity and capital resources.

Divestitures

We used the net proceeds from the Pirate Brands sale, completed in October 2018, along with additional borrowings under our revolving credit facility, to prepay the entire \$500.1 million principal amount of tranche B term loans outstanding under our credit facility. See “Debt” below.

Debt

Senior Secured Credit Agreement. In fiscal 2017, we refinanced our senior secured credit facility twice by amending and restating our senior secured credit agreement, first on March 30, 2017, and again on November 20, 2017.

The first refinancing, on March 30, 2017, reduced by 0.75% the spread over LIBOR or the applicable base rate on the then-outstanding \$640.1 million of tranche B term loans.

On April 3, 2017, we repaid all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans using a portion of the net proceeds of our registered public offering of \$500.0 million aggregate principal amount of 5.25% senior notes due 2025.

On November 20, 2017, we again refinanced our senior secured credit facility. This second refinancing increased the principal amount of the tranche B term loans by \$10.0 million to \$650.1 million, reduced by 25 basis points the spread over LIBOR or the applicable base rate on the tranche B term loans and any revolving loans, increased the aggregate commitments under our revolving credit facility from \$500.0 million to \$700.0 million, and extended the maturity date applicable to our revolving credit facility from June 2019 to November 2022.

We made optional prepayments of our tranche B term loans of \$125.0 million principal amount in the first quarter of 2018 and \$25.0 million principal amount in the second quarter of 2018. On October 18, 2018, we made a mandatory prepayment of \$352.2 million principal amount of tranche B term loans with the net proceeds of the Pirate Brands sale. On October 19, 2018, we made an optional prepayment of the remaining \$147.9 million principal amount of tranche B term loans outstanding under our credit agreement from cash on hand and the proceeds of additional revolving loans under our credit agreement. As a result of the optional and mandatory prepayments of the tranche B term loans, we recognized a loss on extinguishment of debt of \$13.1 million in fiscal 2018, including \$3.3 million in the second quarter and first two quarters of 2018.

As of the date of this report, the available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$1.6 million, was \$483.4 million. Proceeds of the revolving credit facility may be used for general corporate purposes, including acquisitions of targets in the same or a similar line of business as our company, subject to specified criteria. At June 29, 2019, there was \$215.0 million outstanding under our revolving credit facility. The revolving credit facility matures on November 21, 2022.

Our credit agreement is secured by substantially all of our and our domestic subsidiaries' assets except our and our domestic subsidiaries' real property.

Interest under the revolving credit facility, including any outstanding letters of credit is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin ranging from 0.25% to 0.75%, and LIBOR plus an applicable margin ranging from 1.25% to 1.75%, in each case depending on our consolidated leverage ratio.

Interest under the tranche B term loan facility was determined based on alternative rates that we could choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%. As of June 29, 2019, there were no tranche B term loans outstanding under our credit facility.

For further information regarding our credit agreement, including a description of optional and mandatory prepayment terms, and financial and restrictive covenants, see Note 6, "Long-Term Debt," to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

4.625% Senior Notes due 2021. On June 4, 2013, we issued \$700.0 million aggregate principal amount of 4.625% senior notes due 2021 at a price to the public of 100% of their face value. We used the net proceeds from the issuance of the 4.625% senior notes to purchase or redeem all \$248.5 million principal amount of our then existing 7.625% senior notes due 2018, to repay \$222.2 million principal amount of our then existing tranche B term loans and approximately \$40.0 million principal amount of revolving loans under our then existing credit agreement, and to pay related premiums, fees and expenses. We used the remaining net proceeds for our acquisition of Pirate Brands, completed in July 2013.

Interest on the 4.625% senior notes is payable on June 1 and December 1 of each year. The 4.625% senior notes will mature on June 1, 2021, unless earlier retired or redeemed as permitted or required by the terms of the indenture governing the 4.625% senior notes as described in Note 6, "Long-Term Debt," to our unaudited consolidated interim financial statements in Part I, Item 1 of this report. We may also, from time to time, seek to retire the 4.625% senior notes through cash repurchases of the 4.625% senior notes or exchanges of the 4.625% senior notes for equity securities or both, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

We may also, from time to time, seek to retire the 4.625% senior notes through cash repurchases of the 4.625% senior notes and/or exchanges of the 4.625% senior notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

See Note 6, “Long-Term Debt,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report for a more detailed description of the 4.625% senior notes.

5.25% Senior Notes due 2025. On April 3, 2017, we issued \$500.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public of 100% of their face value. On November 20, 2017, we issued an additional \$400.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public 101% of their face value plus accrued interest from October 1, 2017, which equates to a yield to worst of 5.03%. The notes issued in November were issued as additional notes under the same indenture as our 5.25% senior notes due 2025 that were issued in April, and, as such, form a single series and trade interchangeably with the previously issued 5.25% senior notes.

We used the net proceeds of the April 2017 offering to repay all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans, and to pay related fees and expenses. We used the net proceeds of the November 2017 offering to repay all of the then outstanding borrowings and amounts due under our revolving credit facility and to pay related fees and expenses. We have used a portion of, and intend to use the remaining portion of, the net proceeds of the April 2017 and November 2017 offerings for general corporate purposes, which have included and could include, among other things, repayment of other long term debt or possible acquisitions.

Interest on the 5.25% senior notes is payable on April 1 and October 1 of each year, commencing October 1, 2017. The 5.25% senior notes will mature on April 1, 2025, unless earlier retired or redeemed as permitted or required by the terms of the indenture governing the 5.25% senior notes as described in Note 6, “Long-Term Debt,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

We may also, from time to time, seek to retire the 5.25% senior notes through cash repurchases of the 5.25% senior notes and/or exchanges of the 5.25% senior notes for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

See Note 6, “Long-Term Debt,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report for a more detailed description of the 5.25% senior notes.

Stock Repurchase Program

On March 13, 2018, our board of directors authorized a stock repurchase program for the repurchase of up to \$50.0 million of our company’s common stock through March 15, 2019.

Under that authorization, we repurchased and retired 1,397,148 shares of common stock at an average price per share (excluding fees and commissions) of \$26.41, or \$36.9 million in the aggregate, including 407,022 shares of common stock at an average price per share (excluding fees and commissions) of \$24.55, or \$10.0 million in the aggregate, during the first quarter of 2019. We did not repurchase any shares of common stock during the first two quarters of 2018.

On March 12, 2019, our board of directors authorized an extension of our stock repurchase program from March 15, 2019 to March 15, 2020. In extending the repurchase program, our board of directors also reset the repurchase authority to up to \$50.0 million. We did not purchase any shares of common stock during the second quarter of 2019. Therefore, as of June 29, 2019, we had \$50.0 million available for future repurchases of common stock under the stock repurchase program.

Under the authorization, we may purchase shares of common stock from time to time in the open market or in privately negotiated transactions in compliance with the applicable rules and regulations of the SEC.

The timing and amount of future stock repurchases, if any, under the program will be at the discretion of management, and will depend on available cash, market conditions and other considerations. Therefore, we cannot assure you as to the number or aggregate dollar amount of additional shares, if any, that will be repurchased under the repurchase program. We may discontinue the program at any time. Any shares repurchased pursuant to the repurchase program will be retired.

Future Capital Needs

On June 29, 2019, our total long-term debt of \$1,802.6 million, net of our cash and cash equivalents of \$19.9 million, was \$1,782.7 million. Stockholders' equity as of that date was \$868.4 million.

Our ability to generate sufficient cash to fund our operations depends generally on our results of operations and the availability of financing. Our management believes that our cash and cash equivalents on hand, cash flow from operating activities and available borrowing capacity under our revolving credit facility will be sufficient for the foreseeable future to fund operations, meet debt service requirements, fund capital expenditures, make future acquisitions, if any, and pay our anticipated quarterly dividends on our common stock.

We expect to make capital expenditures of approximately \$45.0 million to \$50.0 million in the aggregate during fiscal 2019, \$20.3 million of which were made during the first two quarters. Our projected capital expenditures for fiscal 2019 include, among other things, approximately \$9.1 million in connection with the implementation of a new enterprise resource planning (ERP) system, \$5.4 million for new productivity projects, \$4.4 million for IT infrastructure enhancements, including cyber security, and \$6.8 million to fund infrastructure optimization projects.

Seasonality

Sales of a number of our products tend to be seasonal and may be influenced by holidays, changes in seasons or certain other annual events. In general, our sales are higher during the first and fourth quarters.

We purchase most of the produce used to make our frozen and shelf-stable vegetables, shelf-stable pickles, relishes, peppers, tomatoes and other related specialty items during the months of June through October, and we generally purchase the majority of our maple syrup requirements during the months of April through August. Consequently, our liquidity needs are greatest during these periods.

Inflation

See “—General—*Fluctuations in Commodity Prices and Production and Distribution Costs*” above.

Contingencies

See Note 12, “Commitments and Contingencies,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

Recent Accounting Pronouncements

See Note 2, “Summary of Significant Accounting Policies — *Newly Adopted Accounting Standards*” and “—*Recently Issued Accounting Standards*,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

Off-balance Sheet Arrangements

As of June 29, 2019, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Commitments and Contractual Obligations

Our contractual obligations and commitments principally include obligations associated with our outstanding indebtedness, future minimum operating lease obligations and future pension obligations. During the first two quarters of 2019, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in the Commitments and Contractual Obligations table in our 2018 Annual Report on Form 10-K, except as described in Note 6, “Long-term Debt” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our principal market risks are exposure to changes in commodity prices, interest rates on borrowings and foreign currency exchange rates and market fluctuation risks related to our defined benefit pension plans.

Commodity Prices and Inflation. The information under the heading “General—*Fluctuations in Commodity Prices and Production and Distribution Costs*” in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” is incorporated herein by reference.

Interest Rate Risk. In the normal course of operations, we are exposed to market risks relating to our long-term debt arising from adverse changes in interest rates. Market risk is defined for these purposes as the potential change in the fair value of a financial asset or liability resulting from an adverse movement in interest rates.

Changes in interest rates impact our fixed and variable rate debt differently. For fixed rate debt, a change in interest rates will only impact the fair value of the debt, whereas for variable rate debt, a change in the interest rates will impact interest expense and cash flows. At June 29, 2019, we had \$1,600.0 million of fixed rate debt and \$215.0 million of variable rate debt.

Based upon our principal amount of long-term debt outstanding at June 29, 2019, a hypothetical 1.0% increase or decrease in interest rates would have affected our annual interest expense by approximately \$2.2 million.

The carrying values and fair values of our revolving credit loans, term loans, 4.625% senior notes and 5.25% senior notes as of June 29, 2019 and December 29, 2018 are as follows (in thousands):

	June 29, 2019		December 29, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit loans	\$ 215,000	\$ 215,000 ⁽¹⁾	\$ 50,000	\$ 50,000 ⁽¹⁾
4.625% senior notes due 2021	700,000	698,250 ⁽²⁾	700,000	684,250 ⁽²⁾
5.25% senior notes due 2025	\$ 903,101 ⁽³⁾	\$ 907,617 ⁽²⁾	\$ 903,371 ⁽³⁾	\$ 837,877 ⁽²⁾

(1) Fair values are estimated based on Level 2 inputs, which were quoted prices for identical or similar instruments in markets that are not active.

(2) Fair values are estimated based on quoted market prices.

(3) The carrying values of the 5.25% senior notes due 2025 include a premium. At June 29, 2019 and December 29, 2018 the face amount of the 5.25% senior notes due 2025 was \$900.0 million.

Cash and cash equivalents, trade accounts receivable, income tax receivable/payable, trade accounts payable, accrued expenses and dividends payable are reflected on our consolidated balance sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

For more information, see Note 6, “Long-Term Debt,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

Foreign Currency Risk. Our foreign sales are primarily to customers in Canada. Our sales to Canada are generally denominated in Canadian dollars and our sales for export to other countries are generally denominated in U.S. dollars. During the first two quarters of 2019, our net sales to customers in foreign countries represented approximately 7.6% of our total net sales. During the first two quarters of 2018, our net sales to customers in foreign countries represented approximately 6.9% of our total net sales. We also purchase certain raw materials from foreign suppliers. For example, we purchase a significant majority of our maple syrup requirements from suppliers in Québec, Canada. These purchases are made in Canadian dollars. A weakening of the U.S. dollar in relation to the Canadian dollar would significantly increase our future costs relating to the production of our maple syrup products to the extent we have not purchased Canadian dollars or otherwise entered into a currency hedging arrangement in advance of any such weakening of the U.S. dollar. Our purchases of raw materials from other foreign suppliers are generally denominated in U.S. dollars, but certain purchases of raw materials in Mexico are denominated in Mexican pesos.

As a result, certain revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations, and these fluctuations may have an adverse impact on operating results.

Market Fluctuation Risks Relating to our Defined Benefit Pension Plans. See Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies; Use of Estimates” and Note 10, “Pension Benefits,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report for a discussion of the exposure of our defined benefit pension plan assets to risks related to market fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, our management, including our chief executive officer and our chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures that we use that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d) under the Exchange Act, our management, including our chief executive officer and our chief financial officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our chief executive officer and our chief financial officer concluded that there has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We transitioned the spices & seasonings business that we acquired in late 2016 to a new enterprise resource planning (ERP) system during the third quarter of 2017. Since then, we have been planning for the transition of the remainder of our business to that new ERP system. Implementation and transition efforts for the remainder of our business (other than our Mexican operations) continued during the first two quarters of 2019 and was substantially completed during the second quarter of 2019. In connection with the implementation and transition, and resulting business process changes, we continue to review and enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting following the completion of the implementation and transition. To date, the implementation and transition have not materially affected our internal control over financial reporting. We plan to transition our Mexican operations to the new ERP system by the end of 2021.

Inherent Limitations on Effectiveness of Controls. Our company’s management, including the chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the heading “*Legal Proceedings*” in Note 12 to our unaudited consolidated financial statements in Part I, Item 1 of this quarterly report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

We do not believe there have been any material changes in our risk factors as previously disclosed in our 2018 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

EXHIBIT NO.	DESCRIPTION
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer and Chief Financial Officer.
101.1	The following unaudited financial information from B&G Foods’ Quarterly Report on Form 10-Q for the quarter ended June 29, 2019, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders’ Equity, (v) the Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements, and (vii) document and entity information.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 6, 2019

B&G FOODS, INC.

By: /s/ Bruce C. Wacha

Bruce C. Wacha

Executive Vice President of Finance

and Chief Financial Officer

(Principal Financial Officer and Authorized Officer)

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Kenneth G. Romanzi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of B&G Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Kenneth G. Romanzi

Kenneth G. Romanzi

Chief Executive Officer

CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Bruce C. Wacha, certify that:

1. I have reviewed this quarterly report on Form 10-Q of B&G Foods, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Bruce C. Wacha

Bruce C. Wacha

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

