

**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 February 23, 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: 001-38115

The Simply Good Foods Company

(Exact name of registrant as specified in its charter)



Delaware

82-1038121

(State or other jurisdiction of incorporation or organization)

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

**1225 17th Street, Suite 1000
Denver, CO 80202**

(Address of principal executive offices and zip code)

(303) 633-2840

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 March 22, 2019, there were 81,915,423 shares of common stock, par value \$0.01 per share, issued and outstanding.

**THE SIMPLY GOOD FOODS COMPANY AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED FEBRUARY 23, 2019**

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PART I. Financial Information

Item 1. Financial Statements (Unaudited)

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, dollars in thousands, except share data)

	February 23, 2019	August 25, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 218,897	\$ 111,971
Accounts receivable, net	45,318	36,622
Inventories	45,803	30,001
Prepaid expenses	2,448	2,069
Other current assets	6,671	5,077
Total current assets	<u>319,137</u>	<u>185,740</u>
Long-term assets:		
Property and equipment, net	2,874	2,565
Intangible assets, net	309,391	312,643
Goodwill	471,427	471,427
Other long-term assets	2,890	2,230
Total assets	<u>\$ 1,105,719</u>	<u>\$ 974,605</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 17,247	\$ 11,158
Accrued interest	2,531	582
Accrued expenses and other current liabilities	14,383	15,875
Current portion of TRA liability	—	2,320
Current maturities of long-term debt	653	648
Total current liabilities	<u>34,814</u>	<u>30,583</u>
Long-term liabilities:		
Long-term debt, less current maturities	190,598	190,935
Long-term portion of TRA liability	—	25,148
Deferred income taxes	62,930	54,475
Other long-term liabilities	663	863
Total liabilities	<u>289,005</u>	<u>302,004</u>
See commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 600,000,000 shares authorized, 81,915,213 and 70,605,675 issued and outstanding at February 23, 2019 and August 25, 2018, respectively	819	706
Treasury stock, 6,729 and 0 shares at cost at February 23, 2019 and August 25, 2018, respectively	(127)	—
Additional paid-in-capital	730,584	614,399
Retained earnings	86,273	58,294
Accumulated other comprehensive loss	(835)	(798)
Total stockholders' equity	<u>816,714</u>	<u>672,601</u>
Total liabilities and stockholders' equity	<u>\$ 1,105,719</u>	<u>\$ 974,605</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income
(Unaudited, dollars in thousands, except share and per share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net sales	\$ 123,800	\$ 109,347	\$ 244,731	\$ 215,934
Cost of goods sold	66,166	59,090	127,986	112,920
Gross profit	57,634	50,257	116,745	103,014
Operating expenses:				
Distribution	5,797	5,391	11,081	10,208
Selling	2,533	4,975	6,389	8,878
Marketing	12,196	10,056	23,659	19,906
General and administrative	15,855	12,711	29,724	24,790
Depreciation and amortization	1,939	1,948	3,825	3,882
Business transaction costs	290	1,877	1,329	1,877
Loss (gain) in fair value change of contingent consideration - TRA liability	—	(3,668)	533	(3,026)
Other expense	22	184	21	430
Total operating expenses	38,632	33,474	76,561	66,945
Income from operations				
Income from operations	19,002	16,783	40,184	36,069
Other income (expense):				
Interest income	884	—	1,665	—
Interest expense	(3,344)	(3,093)	(6,605)	(6,112)
Gain on settlement of TRA liability	—	—	1,534	—
Gain (loss) on foreign currency transactions	130	601	(268)	956
Other income	77	312	121	398
Total other expense	(2,253)	(2,180)	(3,553)	(4,758)
Income before income taxes				
Income before income taxes	16,749	14,603	36,631	31,311
Income tax expense (benefit)	4,027	(26,791)	8,652	(20,301)
Net income	\$ 12,722	\$ 41,394	\$ 27,979	\$ 51,612
Other comprehensive income:				
Foreign currency translation adjustments	(179)	(101)	(37)	(800)
Comprehensive income	\$ 12,543	\$ 41,293	\$ 27,942	\$ 50,812
Earnings per share from net income:				
Basic	\$ 0.16	\$ 0.59	\$ 0.35	\$ 0.73
Diluted	\$ 0.15	\$ 0.56	\$ 0.33	\$ 0.71
Weighted average shares outstanding:				
Basic	81,900,352	70,582,573	79,595,330	70,576,744
Diluted	85,350,196	73,832,207	84,062,479	72,605,705

See accompanying notes to the unaudited condensed consolidated financial statements.

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in thousands)

	Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018
Operating activities		
Net income	\$ 27,979	\$ 51,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,825	3,882
Amortization of deferred financing costs and debt discount	668	645
Stock compensation expense	2,478	1,967
Loss (gain) on fair value change of contingent consideration - TRA liability	533	(3,026)
Gain on settlement of TRA liability	(1,534)	—
Unrealized loss (gain) on foreign currency transactions	268	(956)
Deferred income taxes	8,463	(23,398)
Loss on disposal of property and equipment	6	72
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,774)	(4,672)
Inventories	(15,855)	3,284
Prepaid expenses	(384)	(909)
Other current assets	(2,092)	(2,346)
Accounts payable	6,143	(2,601)
Accrued interest	1,949	(15)
Accrued expenses and other current liabilities	(1,810)	1,726
Other	(32)	86
Net cash provided by operating activities	<u>21,831</u>	<u>25,351</u>
Investing activities		
Purchases of property and equipment	(887)	(886)
Acquisition of business, net of cash acquired	—	(1,757)
Net cash used in investing activities	<u>(887)</u>	<u>(2,643)</u>
Financing activities		
Proceeds from option exercises	361	—
Issuance of common stock	(5)	—
Cash received from warrant exercises	113,464	231
Repurchase of common stock	(127)	—
Settlement of TRA liability	(26,468)	—
Principal payments of long-term debt	(1,000)	(500)
Net cash provided by (used in) financing activities	<u>86,225</u>	<u>(269)</u>
Cash and cash equivalents		
Net increase in cash	107,169	22,439
Effect of exchange rate on cash	(243)	70
Cash at beginning of period	111,971	56,501
Cash and cash equivalents at end of period	<u>\$ 218,897</u>	<u>\$ 79,010</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 3,988	\$ 5,481
Cash paid for taxes	\$ 420	\$ 1,755

See accompanying notes to the unaudited condensed consolidated financial statements.

The Simply Good Foods Company and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited, dollars in thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 25, 2018	<u>70,605,675</u>	<u>\$ 706</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 614,399</u>	<u>\$ 58,294</u>	<u>\$ (798)</u>	<u>\$ 672,601</u>
Net income	—	—	—	—	—	15,257	—	15,257
Stock-based compensation	—	—	—	—	1,061	—	—	1,061
Foreign currency translation adjustments	—	—	—	—	—	—	142	142
Shares issued upon vesting of Restricted Stock Units	67,500	1	—	—	(1)	—	—	—
Exercise of options to purchase common stock	4,444	—	—	—	53	—	—	53
Warrant conversion	<u>11,200,299</u>	<u>112</u>	<u>—</u>	<u>—</u>	<u>113,352</u>	<u>—</u>	<u>—</u>	<u>113,464</u>
Balance at November 24, 2018	<u>81,877,918</u>	<u>\$ 819</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 728,864</u>	<u>\$ 73,551</u>	<u>\$ (656)</u>	<u>\$ 802,578</u>
Net income	—	—	—	—	—	12,722	—	12,722
Stock-based compensation	—	—	—	—	1,417	—	—	1,417
Repurchase of common stock	—	—	6,729	(127)	—	—	—	(127)
Foreign currency translation adjustments	—	—	—	—	—	—	(179)	(179)
Shares issued upon vesting of Restricted Stock Units	505	—	—	—	(5)	—	—	(5)
Exercise of options to purchase common stock	<u>36,790</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>308</u>	<u>—</u>	<u>—</u>	<u>308</u>
Balance at February 23, 2019	<u>81,915,213</u>	<u>\$ 819</u>	<u>6,729</u>	<u>\$ (127)</u>	<u>\$ 730,584</u>	<u>\$ 86,273</u>	<u>\$ (835)</u>	<u>\$ 816,714</u>

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount				
Balance at August 26, 2017	<u>70,562,477</u>	<u>\$ 706</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 610,138</u>	<u>\$ (12,161)</u>	<u>\$ 19</u>	<u>\$ 598,702</u>
Net Income	—	—	—	—	—	10,218	—	10,218
Stock compensation	—	—	—	—	1,068	—	—	1,068
Foreign currency translation adjustments	—	—	—	—	—	—	(699)	(699)
Warrant Conversion	<u>20,096</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>231</u>	<u>—</u>	<u>—</u>	<u>231</u>
Balance at November 25, 2017	<u>70,582,573</u>	<u>\$ 706</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 611,437</u>	<u>\$ (1,943)</u>	<u>\$ (680)</u>	<u>\$ 609,520</u>
Net Income	—	—	—	—	—	41,394	—	41,394
Stock compensation	—	—	—	—	899	—	—	899
Foreign currency translation adjustments	—	—	—	—	—	—	(101)	(101)
Balance at February 24, 2018	<u>70,582,573</u>	<u>\$ 706</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 612,336</u>	<u>\$ 39,451</u>	<u>\$ (781)</u>	<u>\$ 651,712</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

Notes to Unaudited Condensed Consolidated Financial Statements
(Unaudited, dollars in thousands, except for share and per share data)

1. Nature of Operations and Principles of Consolidation

Conyers Park Acquisition Corp (“Conyers Park”) was formed on April 20, 2016, as a special purpose acquisition company for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

The Simply Good Foods Company (“Simply Good Foods”) was formed by Conyers Park on March 30, 2017. On April 10, 2017, Conyers Park and NCP-ATK Holdings, Inc. (“Atkins”) entered into a definitive merger agreement (the “Merger Agreement”), pursuant to which on July 7, 2017, Conyers Park merged into Simply Good Foods, which also acquired Atkins pursuant to the Merger Agreement. As a result, both entities became wholly-owned subsidiaries of Simply Good Foods (the “Business Combination”). The Business Combination resulted in Conyers Park controlling the Board of Directors of the combined entity. The common stock of Simply Good Foods is listed on the Nasdaq Capital Market under the symbol “SMPL.”

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Unless the context otherwise requires, “we,” “us,” “our” and the “Company” refer to Simply Good Foods and its subsidiaries.

The Company maintains its accounting records on a 52/53-week fiscal year.

Description of Business

Simply Good Foods operates in the healthy snacking category. The Atkins® brand focuses on an approach to eating that advocates reduced levels of refined carbohydrates and refined sugars, and encourages the consumption of lean protein, fiber, fruits, vegetables, and good fats. The Company sells a variety of nutrition bars, Ready to Drink (“RTD”) shakes, snacks and confectionery products designed around the nutrition principles of the Atkins eating approach. In addition to snacking products, we have granted a license for frozen meals sold in the United States.

Seasonality

The Company has experienced in the past, and expects to continue to experience, seasonal fluctuations in sales as a result of consumer spending patterns. Historically, sales have been greatest in the second fiscal quarter as the Company sells product to retail locations, which sell to consumers in the post-holiday resolution season. The Company has also seen some seasonality in the summer and back-to-school shopping seasons each year. The period of the lowest sales has historically been in the fourth fiscal quarter. The Company believes these consumer spending patterns are driven primarily by the predisposition of consumers to adjust their approach to nutrition at certain times of the year as well as the timing of the Company’s advertising linked with key customer promotion windows.

Unaudited Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements and related notes of the Company and its subsidiaries are unaudited. The condensed consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements reflect all adjustments and disclosures which are, in our opinion, necessary for a fair presentation of the results of operations, financial position and cash flows for the indicated periods. All such adjustments were of a normal and recurring nature. The results reported in these interim condensed consolidated financial statements are not necessarily indicative of the results that may be reported for the entire year and should be read in conjunction with the Company’s consolidated financial statements for the fiscal year ended August 25, 2018, included in our Annual Report on Form 10-K (“Annual Report”), filed on October 24, 2018. The year-end balance sheet data was derived from the audited financial statements and, in accordance with the instructions to Form 10-Q, certain information and footnote disclosures required by GAAP have been condensed or omitted.

2. Summary of Significant Accounting Policies

Refer to Note 2, *Summary of Significant Accounting Policies*, to our consolidated financial statements included in our Annual Report for a description of significant accounting policies.

Recently Issued and Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606). The objective of ASU No. 2014-09 is to outline a new, single comprehensive model to use in accounting for revenue arising from contracts with customers. The new revenue recognition model provides a five-step analysis for determining when and how revenue is recognized, depicting the transfer of promised goods or services to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company adopted the requirements of ASC Topic 606 and all related requirements using the modified retrospective method in the first quarter of fiscal 2019. Upon completing our assessment of ASC Topic 606, we concluded that no adjustments were required to the opening balance of retained earnings at the date of adoption and the comparative information has not been restated. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements. Disclosures required by ASC Topic 606 are presented within Note 3, Revenue Recognition.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10)*. This new standard enhances the reporting model for financial instruments regarding certain aspects of recognition, measurement, presentation, and disclosure. This ASU is to be applied using a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company adopted this ASU in the first quarter of fiscal 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-11 provides entities another option for transition, allowing entities to not apply the new standard in the comparative periods they present in their financial statements in the year of adoption. The amendments provide the option for the ASU to be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The new guidance is effective for the Company beginning in fiscal 2020. The Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements, however, a material increase in lease-related assets and liabilities is expected.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The new guidance is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance requires application using a retrospective transition method. The Company adopted this ASU in the first quarter of fiscal 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and other (Topic 350): Simplifying the Test for Goodwill Impairment*. The standard simplifies how an entity tests goodwill by eliminating Step 2 of the goodwill impairment test. The amended standard also modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The new guidance is effective for the Company beginning in fiscal 2020. The Company is currently evaluating the impact of the new guidance on its goodwill impairment testing.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)*, to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The provisions of this ASU provide a more robust framework to use in determining when a set of assets and activities is a business by clarifying the requirements related to inputs, processes, and outputs. The Company adopted this ASU in the first quarter of fiscal 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The amended standard specifies the modification accounting applicable to any entity which changes the terms or conditions of a share-based payment award. The Company adopted this ASU in the first quarter of fiscal 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

3. Revenue Recognition

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The singular performance obligation of our customer contracts is determined by each individual purchase order and the products ordered, with revenue being recognized at a point-in-time when the obligation under the terms of the agreement is satisfied and product control is transferred to the customer. Specifically, control transfers to our customers when the product is delivered to or picked up by our customers based on applicable shipping terms. The performance obligations of our customer contracts are generally satisfied within 30 days.

Revenue is measured as the amount of consideration we expect to receive in exchange for fulfilled product orders including estimates of variable consideration. The most common forms of variable consideration include trade programs, consumer incentives, coupon redemptions, allowances for unsaleable products, and any additional amounts where a distinct good or service cannot be identified or the value cannot be reasonably estimated. Estimates of variable consideration are made using various information including historical data on performance of similar trade promotional activities, as well as the Company's best estimate of current activity. We review these estimates regularly and make revisions as necessary. Revisions can include changes for consideration paid to customers that lack sufficient evidence to support a distinct good or service assertion, or for which a reasonably estimable fair value cannot be determined, primarily related to our assessments of cooperative advertising programs. Uncertainties related to the estimate of variable consideration are resolved in a short time frame and do not require any additional constraint on variable consideration. Adjustments to variable consideration are recognized in the period the adjustments are identified and have historically been insignificant. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

We provide standard assurance type warranties that our products will comply with all agreed-upon specifications. No services beyond an assurance type warranty are provided to our customers. While customers generally have a right to return defective or non-conforming products, past experience has demonstrated that product returns have been immaterial. Customer remedies for defective or non-conforming products may include a refund or exchange. As a result, the right of return is estimated and recorded as a reduction in revenue, if necessary.

Our customer contracts identify product quantity, price and payment terms. Payment terms are granted consistent with industry standards. Although some payment terms may be more extended, the majority of our payment terms are less than 60 days. As a result, we do not adjust our revenues for the effects of a significant financing component. Amounts billed and due from our customers are classified as accounts receivable on the condensed consolidated balance sheets.

The Company utilizes third-party contract manufacturers for the manufacture of our products. We have evaluated whether the Company is the principal or agent in these relationships. We have determined that the Company is the principal in all cases, as it maintains the responsibility for fulfillment, risk of loss and establishes the price.

We recognize a minor amount of royalty income for the license of Atkins' frozen meals. Royalty income represents less than 1% of the Company's net sales. Royalty revenue is recognized over time as sales of licensed products occur.

The Company has elected the following practical expedites in accordance with ASC Topic 606:

- *Shipping and handling costs*—We have elected to account for shipping and handling costs incurred to deliver products to customers as fulfillment activities, rather than a promised service. As such, fulfillment costs are included in *Distribution* in our Condensed Consolidated Statements of Operations and Comprehensive Income.
- *Costs of obtaining a contract*—We have elected expense costs of obtaining a contract because the amortization period would be less than one year.

Revenues from transactions with external customers for each of Atkins' products would be impracticable to disclose and management does not view its business by product line. The following table presents our revenue disaggregated by geographic area.

(In thousands)	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net sales				
North America	\$ 117,946	\$ 102,609	\$ 232,552	\$ 202,143
International	5,854	6,738	12,179	13,791
Total	\$ 123,800	\$ 109,347	\$ 244,731	\$ 215,934

4. Goodwill and Intangibles

There were no changes to goodwill during the twenty-six weeks ended February 23, 2019.

Intangible assets, net in our Condensed Consolidated Balance Sheets consist of the following:

(In thousands)	Useful life	February 23, 2019		
		Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets with indefinite life:				
Brands and trademarks	Indefinite life	\$ 232,000	\$ —	\$ 232,000
Intangible assets with finite lives:				
Customer relationships	15 years	59,000	6,415	52,585
Proprietary recipes and formulas	7 years	7,000	1,631	5,369
Licensing agreements	14 years	22,000	2,563	19,437
		\$ 320,000	\$ 10,609	\$ 309,391
(In thousands)	Useful life	August 25, 2018		
		Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets with indefinite life:				
Brands and trademarks	Indefinite life	\$ 232,000	\$ —	\$ 232,000
Intangible assets with finite lives:				
Customer relationships	15 years	59,000	4,448	54,552
Proprietary recipes and formulas	7 years	7,000	1,131	5,869
Licensing agreements	14 years	22,000	1,778	20,222
		\$ 320,000	\$ 7,357	\$ 312,643

Intangible assets, net changed due to amortization expense. Amortization expense related to intangible assets during the thirteen weeks ended February 23, 2019 and February 24, 2018 were \$1.6 million and \$1.6 million, respectively. Amortization expense related to intangible assets during the twenty-six weeks ended February 23, 2019 and February 24, 2018 were \$3.3 million and \$3.3 million, respectively.

Estimated future amortization for each of the next five fiscal years and thereafter is as follows:

(In thousands by fiscal year)	
Remainder of 2019	\$ 3,253
2020	6,505
2021	6,505
2022	6,505
2023	6,505
2024 and thereafter	48,118
Total	\$ 77,391

5. Long-Term Debt and Line of Credit

On July 7, 2017, the Company entered into a credit agreement with Barclays Bank PLC and other parties (the "Credit Agreement"). The Credit Agreement provides for (i) a term facility of \$200.0 million ("Term Facility") with a seven year maturity and (ii) a revolving credit facility of up to \$75.0 million (the "Revolving Credit Facility") with a five year maturity. Substantially concurrent with the consummation of the Business Combination, the full \$200.0 million of the Term Facility (the "Term Loan") was drawn. The interest rate per annum is based on either (i) a base rate equaling the higher of (a) the "prime rate", (b) the federal funds effective rate plus 0.50% and (c) the Euro-currency rate applicable for an interest period of one month plus 1.00% plus (x) 3.00% margin for the Term Loan or (y) 2.00% margin for the Revolving Credit Facility, or (ii) London Interbank Offered Rate ("LIBOR") adjusted for statutory reserve requirements, plus (x) 4.00% margin for the Term Loan subject to a floor of 1.00% or (y) 3.00% margin for the Revolving Credit Facility. As security for the payment or performance of its debt, the Company has pledged certain equity interests in its subsidiaries.

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On March 16, 2018 (the “Amendment Date”), the Company entered into an amendment (the “Repricing Amendment”) to the Credit Agreement. As a result of the Repricing Amendment, the interest rate on the Term Loan was reduced and, as of the Amendment Date, such loans bear interest at a rate equal to, at the Company’s option, either LIBOR plus an applicable margin of 3.50% or a base rate plus an applicable margin of 2.50%. The Repricing Amendment did not change the interest rate on the Revolving Credit Facility. The Revolving Credit Facility will continue to bear interest based upon the Company’s consolidated net leverage ratio as of the last financial statements delivered to the administrative agent. No additional debt was incurred, or any proceeds received, by the Company in connection with the Repricing Amendment. The incremental fees paid to the administrative agent are reflected as additional debt discount and are amortized over the terms of the long-term financing agreements using the effective-interest method.

The Credit Agreement contains certain financial and other covenants that limit our ability to, among other things, incur and/or undertake asset sales and other dispositions, liens, indebtedness, certain acquisitions and investments, consolidations, mergers, reorganizations and other fundamental changes, payment of dividends and other distributions to equity and warrant holders, and prepayments of material subordinated debt, in each case, subject to customary exceptions materially consistent with credit facilities of such type and size. The Revolving Credit Facility has a maximum total net leverage ratio equal to or less than 6.25:1.00 (with a reduction to 6.00:1.00 on and after the third anniversary of the closing date of the Credit Agreement) contingent on credit extensions in excess of 30% of the total amount of commitments available under the Revolving Credit Facility. Any failure to comply with the restrictions of the Credit Agreement may result in an event of default. The Company was in compliance with all financial covenants under the Credit Agreement as of February 23, 2019 and August 25, 2018.

At February 23, 2019 and August 25, 2018, there were no amounts drawn against the Revolving Credit Facility. Long-term debt consists of the following:

<i>(In thousands)</i>	February 23, 2019	August 25, 2018
Term Loan	\$ 197,500	\$ 198,500
Less: Deferred financing fees	6,249	6,917
Total debt	<u>191,251</u>	<u>191,583</u>
Less: Current maturities, net of deferred financing fees of \$1.3 million at February 23, 2019 and \$1.4 million at August 25, 2018, respectively	653	648
Long-term debt, net of deferred financing fees	<u>\$ 190,598</u>	<u>\$ 190,935</u>

The Company will be required to make principal payments of \$2.0 million over the next twelve months.

The Company utilizes market approaches to estimate the fair value of certain outstanding borrowings by discounting anticipated future cash flows derived from the contractual terms of the obligations and observable market interest and foreign exchange rates. The Company carries debt at historical cost and discloses fair value. As of February 23, 2019 and August 25, 2018, the book value of the Company’s debt approximated fair value. The estimated fair value of the Term Loan is based on observable inputs and classified as Level 2 in the fair value hierarchy.

6. Fair Value of Financial Instruments

Fair value is defined 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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting the Company’s own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

The following table sets forth the Company’s liabilities measured at fair value.

Fair value at August 25, 2018 is summarized as follows:

<i>(In thousands)</i>	Level 1	Level 2	Level 3	Total
Liabilities				
TRA liability	\$ —	\$ —	\$ 27,468	\$ 27,468

A gain of \$3.7 million was charged to the *Loss (gain) in fair value change of contingent consideration - TRA liability* for the thirteen weeks ended February 24, 2018 primarily due to the impacts of the change in tax law. A loss of \$0.5 million and a gain of \$3.0 million were charged to the *Loss (gain) in fair value change of contingent consideration - TRA liability* for the twenty-six weeks ended February 23, 2019 and February 24, 2018, respectively. The Company settled the Income Tax Receivable Agreement (the "TRA") during the twenty-six weeks ended February 23, 2019, which resulted in a \$1.5 million gain. Following the settlement of the TRA liability, the Company did not have any Level 3 financial assets or liabilities. The settlement of the TRA liability is discussed in Note 7.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of February 23, 2019 and August 25, 2018 due to the relatively short maturity of these instruments.

7. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law. The change in the tax law was partially effective in the 2018 fiscal year and is fully effective in the 2019 fiscal year. The Tax Act, among other things, reduces the top U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings.

Due to the complexities involved in accounting for the Tax Act, SEC Staff Accounting Bulletin 118 requires that the Company include in its financial statements the reasonable estimate of the impact of the Tax Act on earnings to the extent such reasonable estimate has been determined. The Company is allowed a measurement period of up to one year after the enactment date to finalize the recording of the related tax impacts. As of August 25, 2018, we had not completed our accounting for the tax effects of enactment of the Tax Act; however, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax and recorded provisional amounts. For the items for which we were able to determine a reasonable estimate, we recognized a provisional gain of \$31.0 million in fiscal year 2018.

The FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Act. The guidance indicates that either treating taxes on GILTI inclusions as current period costs, or accounting for deferred taxes on GILTI inclusions are both acceptable subject to an accounting policy election. The Company has elected to account for GILTI as a period cost in the year incurred.

Deemed Repatriation Transition Tax: The one-time transition tax is based on our total post-1986 earnings and profits (E&P) that we previously deferred from U.S. income taxes. We recorded provisional amounts in the fourth quarter of fiscal 2018 for our one-time transition tax liability of our foreign subsidiaries, resulting in an immaterial increase in income tax expense. On the basis of revised E&P and cash balance computations that were completed during the reporting period we adjusted our Transition Tax estimate and recorded an immaterial increase in income tax expense in the second quarter.

Reduction of U.S. federal income tax rate: The Tax Act reduced the federal income tax rate from 35% to 21%, effective January 1, 2018. We were able to reasonably estimate the effect of the reduction in the tax rate on our U.S. deferred tax assets and liabilities and in fiscal 2018, we recorded a net provisional reduction in our deferred income tax liabilities of \$31.0 million with a corresponding net adjustment of \$31.0 million of deferred income tax benefit at August 25, 2018. No changes have been made to these adjustments during 2019.

Our accounting for the impact of the Tax Act is now complete.

Effective Tax Rate

The following table shows the tax expense and the effective tax rate for the twenty-six weeks ended February 23, 2019 and February 24, 2018 resulting from operations:

	Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018
(In thousands)		
Income before income taxes	\$ 36,631	\$ 31,311
Provision (benefit) for income taxes	\$ 8,652	\$ (20,301)
Effective tax rate	23.6%	(64.8)%

The effective tax rate for the twenty-six week period ended February 23, 2019 is higher than the effective tax rate for the twenty-six week period ended February 24, 2018 by 88.4%, which is primarily driven by the change in the tax law due to the Tax Act, and also by the one-time impact of the settlement of the TRA in the first quarter of fiscal 2019.

Concurrent with the Business Combination, the Company entered into the TRA with the historical shareholders of Atkins in consideration for the Business Combination. The TRA was valued based on the future expected payments under the terms of the agreement. The TRA provided for the payment by Simply Good Foods to the Atkins' selling equity holders for certain federal, state, local and non-U.S. tax benefits deemed realized in post-closing taxable periods by Simply Good Foods, Conyers Park, Atkins and Atkins' eligible subsidiaries from the use of up to \$100.0 million of the following tax attributes: (i) net operating losses available to be carried forward as of the closing of the Business Combination, (ii) certain deductions generated by the consummation of the business transaction, and (iii) remaining depreciable tax basis from the 2003 acquisition of Atkins Nutritionals, Inc.

During the thirteen weeks ended November 24, 2018, the Company entered into a termination agreement (the "Termination Agreement") with Atkins Holdings, LLC and Roark Capital Acquisition, LLC. Pursuant to the Termination Agreement, the Company paid \$26.5 million to settle the TRA in full. Under the Termination Agreement, each of the parties thereto agreed to terminate the TRA and to release any and all obligations and liabilities of the other parties thereunder effective as of the receipt of the termination payment. The Company recorded a \$0.5 million loss on the fair value change in the TRA liability through the settlement on November 14, 2018 and recognized a gain of \$1.5 million in connection with the execution of the Termination Agreement and final cash payment.

8. Commitments and Contingencies

Leases

The Company has non-cancellable operating leases for six buildings. For the thirteen weeks ended February 23, 2019 and February 24, 2018, rent expenses were \$0.5 million and \$0.6 million, respectively. For the twenty-six weeks ended February 23, 2019 and February 24, 2018, rent expenses were \$1.1 million and \$1.2 million, respectively. Rent expenses are included in *General and administrative* in the Condensed Consolidated Statements of Operations and Comprehensive Income.

Litigation

From time to time, the Company has been and may again become involved in legal proceedings arising in the ordinary course of its business. The Company is not presently a party to any litigation that it believes to be material and the Company is not aware of any pending or threatened litigation against it that it believes could have a material adverse effect on its business, operating results, financial condition or cash flows.

Other

The Company has entered into endorsement contracts with certain celebrity figures to promote and endorse the Atkins brand and line of products. These contracts contain endorsement fees, which are expensed ratably over the life of the contract, and performance fees, that are recognized at the time of achievement. Based on the terms of the contracts in place and achievement of performance conditions as of February 23, 2019, the Company will be required to make payments of \$1.1 million over the next year.

9. Stockholders' Equity

Equity Warrants

Prior to the Business Combination, Conyers Park issued 13,416,667 public warrants and 6,700,000 private placement warrants. Simply Good Foods assumed the Conyers Park equity warrants in connection with the Business Combination. As a result of the Business Combination, the warrants issued by Conyers Park were no longer exercisable for shares of Conyers Park common stock, but were instead exercisable for common stock of Simply Good Foods. All other features of the warrants were unchanged.

From August 26, 2018 through October 5, 2018, public warrants to purchase an aggregate of 9,866,451 shares of the Company's common stock were exercised for cash at an exercise price of \$11.50 per share, resulting in aggregate gross proceeds to the Company of \$113.5 million.

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On October 4, 2018, the Company delivered a notice for the redemption (the "Redemption Notice") of all of its public warrants that remained unexercised immediately after November 5, 2018. Holders who exercised public warrants following the Redemption Notice were required to do so on a cashless basis. Accordingly, holders were no longer permitted to exercise public warrants in exchange for payment in cash of \$11.50 per share. Instead, a holder exercising a public warrant was deemed to have paid the \$11.50 per share exercise price by the surrender of 0.61885 of a share of common stock that the holder would have been entitled to receive upon a cash exercise of each public warrant. Exercising holders received 0.38115 of a share of the Company's common stock for each public warrant surrendered for exercise. Following the Redemption Notice, 3,499,639 public warrants were exercised on a cashless basis. An aggregate of 1,333,848 shares of the Company's common stock were issued in connection with these exercises of the public warrants. All remaining public warrants were redeemed as of November 5, 2018 for an immaterial amount.

The Company's private warrants to purchase 6,700,000 shares of the Company's common stock remain outstanding.

Stock Repurchase Program

On November 13, 2018, the Company announced that its Board of Directors had adopted a \$50.0 million stock repurchase program. Under the stock repurchase program, the Company may repurchase shares from time to time in the open market or in privately negotiated transactions. The stock repurchase program does not obligate the Company to acquire any specific number of shares or acquire shares over any specific period of time. The stock repurchase program may be suspended or discontinued at any time by the Company, and does not have an expiration date.

During the twenty-six weeks ended February 23, 2019, the Company repurchased 6,729 shares of common stock at an average share price of \$18.92 per share.

10. Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares issued and outstanding. Diluted earnings per share is based on the weighted average number of common shares issued and outstanding and the effect of all dilutive common stock equivalents outstanding during each period.

The following table reconciles the numerators and denominators used in the computations of both basic and diluted earnings per share:

<i>(In thousands, except per share data)</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Basic earnings per share computation:				
Numerator:				
Net income	\$ 12,722	\$ 41,394	\$ 27,979	\$ 51,612
Denominator:				
Weighted average common shares - basic	81,900,352	70,582,573	79,595,330	70,576,744
Basic earnings per share from net income	<u>\$ 0.16</u>	<u>\$ 0.59</u>	<u>\$ 0.35</u>	<u>\$ 0.73</u>
Diluted earnings per share computation:				
Numerator:				
Net income	\$ 12,722	\$ 41,394	\$ 27,979	\$ 51,612
Denominator:				
Weighted average common shares outstanding - basic	81,900,352	70,582,573	79,595,330	70,576,744
Public and Private Warrants	2,745,135	3,202,726	3,818,870	2,000,021
Employee stock options	664,950	—	612,304	—
Non-vested shares	39,759	46,908	35,975	28,940
Weighted average common shares - diluted	85,350,196	73,832,207	84,062,479	72,605,705
Diluted earnings per share from net income	<u>\$ 0.15</u>	<u>\$ 0.56</u>	<u>\$ 0.33</u>	<u>\$ 0.71</u>

Earnings per share calculations for the thirteen weeks ended February 23, 2019 and February 24, 2018 excluded 0.4 million and 2.4 million shares of stock options, respectively, that would have been anti-dilutive. Earnings per share calculations for the thirteen weeks ended February 23, 2019 excluded 0.1 million non-vested shares that would have been anti-dilutive.

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Earnings per share calculations for the twenty-six weeks ended February 23, 2019 and February 24, 2018 excluded 0.3 million and 2.5 million shares of stock options, respectively, that would have been anti-dilutive. Earnings per share calculations for the twenty-six weeks ended February 23, 2019 excluded 0.1 million non-vested shares, that would have been anti-dilutive.

11. Stock Option Plan

Stock-based compensation includes stock options, restricted stock unit and performance stock unit awards, which are awarded to employees and directors of the Company. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the award based on their grant date fair value. Stock-based compensation expense is included within *General and administrative* expense, which is the same financial statement caption where the recipient's other compensation is reported.

The Company recorded \$1.4 million and \$0.9 million of stock-based compensation expense in the thirteen weeks ended February 23, 2019 and February 24, 2018, respectively. The Company recorded \$2.5 million and \$2.0 million of stock-based compensation expense in each of the twenty-six weeks ended February 23, 2019 and February 24, 2018, respectively.

Stock Options

The following table summarizes stock option activity for the twenty-six weeks ended February 23, 2019:

	Shares	Weighted average exercise price	Weighted average remaining contractual life (in years)
Outstanding as of August 25, 2018	2,506,083	\$ 12.28	
Granted	315,331	19.89	
Exercised	(60,513)	12.00	
Forfeited	—	—	
Outstanding as of February 23, 2019	<u>2,760,901</u>	<u>\$ 13.15</u>	8.61
Vested and expected to vest as of February 23, 2019	2,760,901	\$ 13.15	8.61
Exercisable as of February 23, 2019	726,855	\$ 12.00	8.39

As of February 23, 2019, the Company had \$6.7 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 1.69 years. During the twenty-six week period ended February 23, 2019, the Company received \$0.4 million in cash from stock option exercises.

Restricted Stock Units

The following table summarizes restricted stock unit activity for the twenty-six weeks ended February 23, 2019:

	Units	Weighted average grant-date fair value
Non-vested as of August 25, 2018	111,085	\$ 12.06
Granted	75,693	18.67
Vested	(68,268)	11.93
Forfeited	(7,573)	15.91
Non-vested as of February 23, 2019	<u>110,937</u>	<u>\$ 16.39</u>

As of February 23, 2019, the Company had \$1.3 million of total unrecognized compensation cost related to restricted stock units that will be recognized over a weighted average period of 1.47 years.

Performance Stock Units

During the twenty-six weeks ended February 23, 2019, the board of directors granted performance stock units under the Company's equity compensation plan. Performance stock units vest in a range between 0% and 100% based upon the price of the Company's common stock at the end of a three-year period. Performance stock units were valued using a Monte-Carlo simulation.

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The following table summarizes performance stock unit activity for the twenty-six weeks ended February 23, 2019:

	Units	Weighted average grant-date fair value
Non-vested as of August 25, 2018	—	\$ —
Granted	193,512	11.93
Vested	—	—
Forfeited	—	—
Non-vested as of February 23, 2019	<u>193,512</u>	<u>\$ 11.93</u>

As of February 23, 2019, the Company had \$2.1 million of total unrecognized compensation cost related to performance stock units that will be recognized over a weighted average period of 2.71 years.

12. Related Party Transactions

Tax Receivable Agreement

During the twenty-six weeks ended February 23, 2019, the Company entered into the Termination Agreement, pursuant to which, the Company paid \$26.5 million to settle the TRA (the "Termination Payment"), which provided former stockholders of Atkins with payments for federal, state, local and non-U.S. tax benefits deemed realized by the Company.

Under the Termination Agreement, each of the parties thereto agreed to terminate the TRA and to release and discharge any and all obligations and liabilities of the other parties thereunder effective as of the exchange agent's receipt of the Termination Payment. Richard Laube, a former director of the Company, Joseph Scalzo, our president and Chief Executive Officer and a director of the Company, and Scott Parker, our Chief Marketing Officer, were each former stockholders of Atkins and received their respective pro rata share of the Termination Payment as additional consideration for their former stock ownership in accordance with the terms of the Merger Agreement. The TRA liability and subsequent settlement are discussed in Note 7.

Execution of the Merger Agreement

In the first quarter of fiscal 2018, per the terms of the Merger Agreement, Simply Good Foods paid a working capital adjustment of \$1.8 million to the former owners of Atkins, which also resulted in a corresponding increase to the previously recognized goodwill.

13. Segment and Customer Information

The Company has organized its operations into one operating segment that sells its branded nutritional foods and snacking products designed around the nutrition principles of the Atkins eating approach. The results of the operating segment are reviewed by the Company's chief operating decision maker to make decisions about resource expenditures and assessing financial performance. This operating segment is therefore the Company's only reportable segment.

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

This Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements. When used anywhere in this Report, the words "expect," "believe," "anticipate," "estimate," "intend," "plan" and similar expressions are intended to identify forward-looking statements. These statements relate to future events or our future financial or operational performance and involve known and unknown risks, uncertainties and other factors that could cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. We disclaim any undertaking to publicly update or revise any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. These statements reflect our current views with respect to future events and are based on assumptions subject to risks and uncertainties. Such risks and uncertainties include those related to our ability to sell our products.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended August 25, 2018 ("Annual Report") and our unaudited condensed consolidated financial statements and the related notes appearing elsewhere in this Report. In addition to historical information, the following discussion contains forward-looking statements, such as statements regarding the Company's expectation for future performance, liquidity and capital resources that involve risks, uncertainties and assumptions that could cause actual results to differ materially from the Company's expectations. The Company's actual results may differ materially from those contained in or implied by any forward-looking statements. Factors that could cause such differences include those identified below and in Item 1A. "Risk Factors" of our Annual Report. The Company assumes no obligation to update any of these forward-looking statements.

Unless the context requires otherwise in this Report, the terms "we," "us," "our," the "Company" and "Simply Good Foods" refer to The Simply Good Foods Company and its subsidiaries.

Overview

Simply Good Foods is a growing developer, marketer and seller of branded nutritional foods and snacking products. Its highly-focused product portfolio consists primarily of nutrition bars, ready-to-drink ("RTD") shakes, snacks and confectionery products marketed under the Atkins®, SimplyProtein®, Atkins Harvest Trail and Atkins Endulge® brand names. Over the past 45 years, Atkins has become an iconic American brand that for many consumers stands for "low carb," "low sugar" and "protein rich" nutrition. The Atkins approach focuses on a healthy nutritional approach with reduced levels of carbohydrates and sugars and encourages the consumption of lean protein, fiber, fruits, vegetables, and good fats.

In our core Atkins snacking business, we strive to offer a complete line of nutrition bars, RTD shakes and confections that satisfy hunger while providing consumers with a convenient, "better-for-you" snacking alternative. Our sales, marketing and R&D capabilities enable us to distribute products into a national customer base across the mass merchandiser, grocery and drug channels. We believe that Atkins' broad brand recognition, depth of management talent and strong cash generation position us to continue to innovate in the Atkins brand and acquire other brands, and thereby become an industry leading snacking platform. To that end, in December 2016, Atkins completed the acquisition of Wellness Foods, Inc., a Canada-based developer, marketer and seller of the SimplyProtein® brand that is focused on protein-rich and low-sugar products, which our management believes has significant opportunity for expansion in the U.S. In addition to snacking products, Atkins entered into a license arrangement in 2014 for frozen meals sold in the U.S. by Bellisio Foods, Inc.

Seasonality

We have experienced in the past, and expect to continue to experience, seasonal fluctuations in sales as a result of consumer spending patterns. Historically, sales have been greatest in the second fiscal quarter as we sell product to retail locations, which sell to consumers in the post-holiday resolution season. We have also seen some seasonality in the summer and back-to-school shopping seasons each year. The period of the lowest sales has historically been in the fourth fiscal quarter. We believe these consumer spending patterns are driven primarily by the predisposition of consumers to adjust their approach to nutrition at certain times of the year as well as the timing of our advertising linked with key customer promotion windows.

Our Reportable Segment

Our business is organized around one reportable segment based on our go-to-market strategies, the objectives of the business and how our chief decision maker, our Chief Executive Officer, monitors operating performance and allocates resources.

Key Financial Definitions

Net sales. Net sales consists primarily of product sales less cost of promotional activities, slotting fees and other sales credits and adjustments, including product returns. We also include licensing revenue from the frozen meals business in net sales.

Cost of goods sold. Cost of goods sold consists primarily of the costs we pay to our contract manufacturing partners to produce the products sold. These costs include the purchase of raw ingredients, packaging, and a tolling charge for the contract manufacturer. Cost of goods sold includes products provided at no charge as part of promotions and the non-food materials provided with customer orders.

Operating expenses. Operating expenses consist primarily of selling, marketing, distribution, general and administrative, depreciation and amortization, and other expenses. The following is a brief description of the components of operating expenses:

- *Distribution.* Distribution is principally freight associated with shipping and handling of products to the customer.
- *Selling.* Selling expenses are comprised of broker commissions and customer marketing.
- *Marketing.* Marketing expenses are comprised of media and other marketing costs.
- *General and administrative.* General and administrative expenses are comprised of expenses associated with corporate and administrative functions that support our business, including fees for employee salaries, professional services, insurance and other general corporate expenses. We expect our general and administrative fees to increase as we incur additional legal, accounting, insurance and other expenses associated with being a public company.
- *Depreciation and amortization.* Depreciation and amortization costs consist of costs associated with the depreciation of fixed assets and capitalized leasehold improvements and amortization of intangible assets.
- *Business transaction costs.* Business transaction costs are comprised of legal, due diligence and accounting firm expenses associated with process of actively pursuing a potential business combination.
- *Loss (gain) in fair value change of contingent consideration - TRA liability.* Loss in fair value change of contingent consideration - TRA liability charges relate to fair value adjustments of the TRA liability.
- *Other expense.* Other expense is principally costs of restructuring consisting of severance and related expenses.

Results of Operations

Our strong second quarter and year-to date results reflect the successful execution of our annual plan as well as our strategic initiatives. We delivered double-digit sales, gross profit and Adjusted EBITDA growth in both the second quarter and year-to-date periods. Our U.S. retail takeaway, as measured by IRI for the thirteen week period ended February 23, 2019, continued to be strong and was up 22.1% versus the prior year. We continued to expand Adjusted EBITDA margin while also making investments in marketing and organizational capabilities that we believe will benefit the company in the near and long term.

In assessing the performance of our business, we consider a number of key performance indicators used by management and typically used by our competitors, including the non-GAAP measures of EBITDA and Adjusted EBITDA. 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. See “Reconciliation of Adjusted EBITDA” below for a reconciliation of EBITDA and Adjusted EBITDA to net income for each applicable period.

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Comparison of Unaudited Results for the Thirteen Weeks Ended February 23, 2019 and the Thirteen Weeks Ended February 24, 2018

The following unaudited table presents, for the periods indicated, selected information from our Condensed Consolidated Statements of Operations and Comprehensive Income, including information presented as a percentage of net sales:

(In thousands)	Thirteen Weeks Ended		Thirteen Weeks Ended	
	February 23, 2019	% of Sales	February 24, 2018	% of Sales
Net sales	\$ 123,800	100.0 %	\$ 109,347	100.0 %
Cost of goods sold	66,166	53.4 %	59,090	54.0 %
Gross profit	57,634	46.6 %	50,257	46.0 %
 Operating expenses:				
Distribution	5,797	4.7 %	5,391	4.9 %
Selling	2,533	2.0 %	4,975	4.5 %
Marketing	12,196	9.9 %	10,056	9.2 %
General and administrative	15,855	12.8 %	12,711	11.6 %
Depreciation and amortization	1,939	1.6 %	1,948	1.8 %
Business transaction costs	290	0.2 %	1,877	1.7 %
Gain in fair value change of contingent consideration - TRA liability	—	— %	(3,668)	(3.4)%
Other expense	22	— %	184	0.2 %
Total operating expenses	38,632	31.2 %	33,474	30.6 %
 Income from operations				
	19,002	15.3 %	16,783	15.3 %
 Other income (expense):				
Interest income	884	0.7 %	—	— %
Interest expense	(3,344)	(2.7)%	(3,093)	(2.8)%
Gain on foreign currency transactions	130	0.1 %	601	0.5 %
Other income	77	0.1 %	312	0.3 %
Total other expense	(2,253)	(1.8)%	(2,180)	(2.0)%
 Income before income taxes				
	16,749	13.5 %	14,603	13.4 %
Income tax expense (benefit)	4,027	3.3 %	(26,791)	(24.5)%
Net income	<u>\$ 12,722</u>	<u>10.3 %</u>	<u>\$ 41,394</u>	<u>37.9 %</u>
 Other financial data:				
Adjusted EBITDA	<u>\$ 22,965</u>	<u>18.6 %</u>	<u>\$ 18,807</u>	<u>17.2 %</u>

Net sales. Net sales of \$123.8 million represented an increase of \$14.5 million, or 13.2%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The net sales increase of 13.2% was driven by volume growth, primarily due to strong U.S. retail takeaway, and favorable price related trade, partially offset by a shift in non-price related customer activity.

Cost of goods sold. Cost of goods sold increased \$7.1 million, or 12.0%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The cost of goods sold increase is driven by sales volume growth.

Gross profit. Gross profit increased \$7.4 million, or 14.7%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. Gross profit of \$57.6 million, or 46.6% of net sales, for the thirteen weeks ended February 23, 2019 increased 60 basis points from 46.0% of net sales for the thirteen weeks ended February 24, 2018. The increase in gross margin was primarily due to favorable trade spend, as in-store promotions were lower versus last year.

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Operating expenses. Operating expenses increased \$5.2 million, or 15.4%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018 due to the following:

- **Distribution.** Distribution expenses increased \$0.4 million, or 7.5%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The increase is primarily driven by sales volume growth and is partially offset by logistics efficiencies.
- **Selling.** Selling expenses decreased \$2.4 million, or 49.1%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The decrease is primarily due to a shift in non-price related customer activity.
- **Marketing.** Marketing expenses increased \$2.1 million, or 21.3%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The increase is primarily driven by an increase in television media and e-commerce investments.
- **General and administrative.** General and administrative expenses increased \$3.1 million, or 24.7%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The increase is due to higher incentive compensation of \$2.4 million and investments to enhance organizational capabilities in key functions of \$0.9 million.
- **Depreciation and amortization.** Depreciation and amortization expenses for the thirteen weeks ended February 23, 2019 were flat compared to the thirteen weeks ended February 24, 2018.
- **Business transaction costs.** Business transaction costs decreased \$1.6 million, or 84.5%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The \$1.9 million recorded in the prior year is primarily related to a secondary public offering of common shares by a former stockholder. The \$0.3 million recorded in the thirteen weeks ended February 23, 2019 is comprised of expenses relating to business development activities.
- **Gain in fair value change of contingent consideration - TRA liability.** The thirteen weeks ended February 24, 2018 included a gain in fair value change of contingent consideration of \$3.7 million related to the prior year impact of the tax law change. The TRA liability was settled in the first quarter of fiscal 2019. For additional information on the settlement of the TRA, see Note 7 in the Notes to Unaudited Condensed Consolidated Financial Statements.

Interest income. Interest income increased \$0.9 million for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018, due to the Company's increased cash balance resulting from warrant exercises during the first quarter of fiscal 2019 and changes in market interest rates.

Interest expense. Interest expense increased \$0.3 million for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018, due to changes in market interest rates.

Gain on foreign currency transactions. A gain of \$0.1 million in foreign currency transactions was recorded for the thirteen weeks ended February 23, 2019 compared to a foreign currency gain of \$0.6 million for the thirteen weeks ended February 24, 2018. The change relates to changes in foreign currency rates related to international operations.

Income tax expense (benefit). Income tax expense increased \$30.8 million, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The increase in our income tax expense is primarily attributed to the one-time gain of \$29.0 million related to the tax law change and remeasurement of deferred tax liabilities recorded in the thirteen weeks ended February 24, 2018 compared to income tax expense recognized at an effective rate of 24.0% for the thirteen weeks ended February 23, 2019.

Adjusted EBITDA. Adjusted EBITDA increased \$4.2 million, or 22.1%, for the thirteen weeks ended February 23, 2019 compared to the thirteen weeks ended February 24, 2018. The increase is primarily due to higher gross profit, partially offset by higher operating expenses. For a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, see "Reconciliation of Adjusted EBITDA" below.

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Comparison of Unaudited Results for the Twenty-Six Weeks Ended February 23, 2019 and the Twenty-Six Weeks Ended February 24, 2018

The following unaudited table presents, for the periods indicated, selected information from our condensed consolidated financial results, including information presented as a percentage of net sales:

(In thousands)	Twenty-Six Weeks Ended		Twenty-Six Weeks Ended	
	February 23, 2019	% of Sales	February 24, 2018	% of Sales
Net sales	\$ 244,731	100.0 %	\$ 215,934	100.0 %
Cost of goods sold	127,986	52.3 %	112,920	52.3 %
Gross profit	116,745	47.7 %	103,014	47.7 %
Operating expenses:				
Distribution	11,081	4.5 %	10,208	4.7 %
Selling	6,389	2.6 %	8,878	4.1 %
Marketing	23,659	9.7 %	19,906	9.2 %
General and administrative	29,724	12.1 %	24,790	11.5 %
Depreciation and amortization	3,825	1.6 %	3,882	1.8 %
Business transaction costs	1,329	0.5 %	1,877	0.9 %
Loss (gain) in fair value change of contingent consideration - TRA liability	533	0.2 %	(3,026)	(1.4)%
Other expense	21	— %	430	0.2 %
Total operating expenses	76,561	31.3 %	66,945	31.0 %
Income from operations				
Income from operations	40,184	16.4 %	36,069	16.7 %
Other income (expense):				
Interest income	1,665	0.7 %	—	— %
Interest expense	(6,605)	(2.7)%	(6,112)	(2.8)%
Gain on settlement of TRA liability	1,534	0.6 %	—	— %
(Loss) gain on foreign currency transactions	(268)	(0.1)%	956	0.4 %
Other income	121	— %	398	0.2 %
Total other expense	(3,553)	(1.5)%	(4,758)	(2.2)%
Income before income taxes				
Income before income taxes	36,631	15.0 %	31,311	14.5 %
Income tax expense (benefit)	8,652	3.5 %	(20,301)	(9.4)%
Net income	\$ 27,979	11.4 %	\$ 51,612	23.9 %
Other financial data:				
Adjusted EBITDA	\$ 49,663	20.3 %	\$ 42,517	19.7 %

Net sales. Net sales of \$244.7 million represented an increase of \$28.8 million, or 13.3%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The net sales increase of 13.3% was driven by volume growth, primarily due to strong U.S. retail takeaway, and favorable price related trade, partially offset by a shift in non-price related customer activity.

Cost of goods sold. Cost of goods sold increased \$15.1 million, or 13.3%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The cost of goods sold increase is driven by sales volume growth.

Gross profit. Gross profit increased \$13.7 million, or 13.3%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. Gross profit of \$116.7 million, or 47.7% of net sales, for the twenty-six weeks ended February 23, 2019 was in-line with the twenty-six weeks ended February 24, 2018. Gross margin is impacted by non-price related customer activity that is a reclassification from selling expense, offset by favorable trade spend, as in-store promotions were lower versus last year.

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Operating expenses. Operating expenses increased \$9.6 million, or 14.4%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018 due to the following:

- **Distribution.** Distribution expenses increased \$0.9 million, or 8.6%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase is primarily driven by sales volume growth and is partially offset by logistics efficiencies.
- **Selling.** Selling expenses decreased \$2.5 million, or 28.0%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The decrease is primarily due to a shift in non-price related customer activity.
- **Marketing.** Marketing expenses increased \$3.8 million, or 18.9%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase is primarily driven by an increase in television media and e-commerce investments.
- **General and administrative.** General and administrative expenses increased \$4.9 million, or 19.9%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase is due to higher incentive compensation of \$2.4 million, investments to enhance organizational capabilities in key functions of \$2.1 million, and other expenses of \$0.4 million.
- **Depreciation and amortization.** Depreciation and amortization expenses for the twenty-six weeks ended February 23, 2019 were flat compared to the twenty-six weeks ended February 24, 2018.
- **Business transaction costs.** Business transaction costs decreased \$0.5 million, or 29.2%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The \$1.9 million recorded in the prior year is primarily related to a secondary public offering of common shares by a former stockholder. The \$1.3 million recorded in the twenty-six weeks ended February 23, 2019 is comprised of expenses relating to business development activities.
- **Loss (gain) in fair value change of contingent consideration - TRA liability.** Loss in contingent consideration increased \$3.6 million for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase is due to the timing of the settlement of the TRA liability during the twenty-six weeks ended February 23, 2019. The gain in the twenty-six weeks ended February 24, 2018 reflects the impact of the change in tax law in the prior year.

Interest income. Interest income increased \$1.7 million for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018, due to the Company's increased cash balance resulting from warrant exercises during the twenty-six weeks ended February 23, 2019 and changes in market interest rates.

Interest expense. Interest expense increased \$0.5 million for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018, due to changes in market interest rates.

Gain on settlement of TRA liability. The Company recorded a \$1.5 million gain in connection with the settlement of the TRA liability in the twenty-six weeks ended February 23, 2019. The TRA settlement is discussed in Note 7 of the condensed consolidated financial statements included in this Report.

(Loss) gain on foreign currency transactions. A loss of \$0.3 million in foreign currency transactions was recorded for the twenty-six weeks ended February 23, 2019 compared to a foreign currency gain of \$1.0 million for the twenty-six weeks ended February 24, 2018. The change relates to changes in foreign currency rates related to international operations.

Income tax expense (benefit). Income tax expense increased \$29.0 million, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase in our income tax expense is primarily attributed to the one-time gain of \$29.0 million related to the tax law change and remeasurement of deferred tax liabilities recorded in the twenty-six weeks ended February 24, 2018 compared to income tax expense recognized at an effective rate of 23.6% for the twenty-six weeks ended February 23, 2019.

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Adjusted EBITDA. Adjusted EBITDA increased \$7.1 million, or 16.8%, for the twenty-six weeks ended February 23, 2019 compared to the twenty-six weeks ended February 24, 2018. The increase is primarily due to higher gross profit, partially offset by higher operating expenses. For a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, see “Reconciliation of Adjusted EBITDA” below.

Reconciliation of Adjusted EBITDA

Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure commonly used in our industry and should not be considered in isolation or as an alternative to net income under GAAP. Simply Good Foods defines Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) as net income before interest income, interest expense, income tax expense, depreciation and amortization with further adjustments to exclude the following items: stock-based compensation, restructuring costs, non-core legal costs, transactional exchange impact, change in fair value of contingent consideration - TRA liability, gain on settlement of TRA liability, business transaction costs and other non-core expenses. Adjusted EBITDA is used by management to monitor results of ongoing operations. The Company believes Adjusted EBITDA provides useful information to management and investors regarding certain financial and business trends relating to the financial condition and results of operations to date; and that the use of Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends in and in comparing financial measures with other similar companies, many of which present similar non-GAAP financial measures to investors. Adjusted EBITDA is subject to inherent limitations as it reflects the exercise of judgments by management about which expense and income are excluded or included in determining Adjusted EBITDA. Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in calculation.

The following unaudited tables below provide a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, which is net income, for the thirteen weeks and twenty-six weeks ended February 23, 2019 and February 24, 2018:

Adjusted EBITDA Reconciliation: <i>(in thousands)</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018	February 23, 2019	February 24, 2018
Net income	\$ 12,722	\$ 41,394	\$ 27,979	\$ 51,612
Interest income	(884)	—	(1,665)	—
Interest expense	3,344	3,093	6,605	6,112
Income tax expense (benefit)	4,027	(26,791)	8,652	(20,301)
Depreciation and amortization	1,939	1,948	3,825	3,882
EBITDA	21,148	19,644	45,396	41,305
Business transaction costs	290	1,877	1,329	1,877
Share-based compensation expense	1,417	899	2,478	1,967
Restructuring	22	184	22	430
Non-core legal costs	208	403	1,150	779
Loss (gain) in fair value change of contingent consideration - TRA liability	—	(3,668)	533	(3,026)
Gain on settlement of TRA liability	—	—	(1,534)	—
Other ⁽¹⁾	(120)	(532)	289	(815)
Adjusted EBITDA	\$ 22,965	\$ 18,807	\$ 49,663	\$ 42,517

⁽¹⁾ Other items consist principally of exchange impact of foreign currency transactions, frozen licensing media and other expenses.

Liquidity and Capital Resources

Overview

We have historically funded our operations with cash flow from operations and, when needed, with borrowings under our credit facilities. Our principal uses for liquidity have been debt service and working capital.

We had \$218.9 million in cash and cash equivalents as of February 23, 2019, which is sufficient to satisfy current liabilities, current maturities of long-term debt, and the interest payments associated with them. We believe our sources of liquidity and capital will be sufficient to finance our continued operations, growth strategy and additional expenses we expect to incur as a public company for at least the next twelve months.

Debt and Credit Facilities

On July 7, 2017, the Company entered into a credit agreement with Barclays Bank PLC and other parties (the "Credit Agreement"). The Credit Agreement provides for (i) a term facility of \$200.0 million ("Term Facility") with a seven year maturity and (ii) a revolving credit facility of up to \$75.0 million (the "Revolving Credit Facility") with a five year maturity. Substantially concurrent with the consummation of the Business Combination, the full \$200.0 million of the Term Facility (the "Term Loan") was drawn. The interest rate per annum is based on either (i) a base rate equaling the higher of (a) the "prime rate", (b) the federal funds effective rate plus 0.50% and (c) the Euro-currency rate applicable for an interest period of one month plus 1.00% plus (x) 3.00% margin for the Term Loan or (y) 2.00% margin for the Revolving Credit Facility, or (ii) London Interbank Offered Rate ("LIBOR") adjusted for statutory reserve requirements, plus (x) 4.00% margin for the Term Loan subject to a floor of 1.00% or (y) 3.00% margin for the Revolving Credit Facility. As security for the payment or performance of its debt, the Company has pledged certain equity interests in its subsidiaries.

On March 16, 2018 (the "Amendment Date"), the Company entered into an amendment (the "Repricing Amendment") to the Credit Agreement. As a result of the Repricing Amendment, the interest rate on the Term Loan was reduced and, as of the Amendment Date, such loans bear interest at a rate equal to, at the Company's option, either LIBOR plus an applicable margin of 3.50% or a base rate plus an applicable margin of 2.50%. The Repricing Amendment did not change the interest rate on the Revolving Credit Facility. The Revolving Credit Facility will continue to bear interest based upon the Company's consolidated net leverage ratio as of the last financial statements delivered to the administrative agent. No additional debt was incurred, or any proceeds received, by the Company in connection with the Repricing Amendment. The incremental fees paid to the administrative agent are reflected as additional debt discount and are amortized over the terms of the long-term financing agreements using the effective-interest method.

The Credit Agreement contains certain financial and other covenants that limit our ability to, among other things, incur and/or undertake asset sales and other dispositions, liens, indebtedness, certain acquisitions and investments, consolidations, mergers, reorganizations and other fundamental changes, payment of dividends and other distributions to equity and warrant holders, and prepayments of material subordinated debt, in each case, subject to customary exceptions materially consistent with credit facilities of such type and size. The Revolving Credit Facility has a maximum total net leverage ratio equal to or less than 6.25:1.00 (with a reduction to 6.00:1.00 on and after the third anniversary of the closing date of the Credit Agreement) contingent on credit extensions in excess of 30% of the total amount of commitments available under the Revolving Credit Facility. Any failure to comply with the restrictions of the Credit Agreement may result in an event of default. The Company was in compliance with all financial covenants under the Credit Agreement as of February 23, 2019 and August 25, 2018.

At February 23, 2019, the outstanding principal balance of the Term Loan was \$197.5 million and there were no amounts drawn against the Revolving Credit Facility.

Equity Warrants

From August 26, 2018 through October 5, 2018, public warrants to purchase an aggregate of 9,866,451 shares of the Company's common stock were exercised for cash at an exercise price of \$11.50 per share, resulting in aggregate gross proceeds to the Company of \$113.5 million.

On October 4, 2018, the Company delivered a notice for the redemption (the "Redemption Notice") of all of its public warrants that remained unexercised immediately after November 5, 2018. Holders who exercised public warrants following the Redemption Notice were required to do so on a cashless basis. Accordingly, holders were no longer permitted to exercise public warrants in exchange for payment in cash of \$11.50 per share. Instead, a holder exercising a public warrant was deemed to have paid the \$11.50 per share exercise price by the surrender of 0.61885 of a share of common stock that the holder would have been entitled to receive upon a cash exercise of each public warrant. Exercising holders received 0.38115 of a share of the Company's common stock for each public warrant surrendered for exercise. Following the Redemption Notice, 3,499,639 public warrants were exercised on a cashless basis. An aggregate of 1,333,848 shares of the Company's common stock were issued in connection with these exercises of the public warrants. All remaining public warrants were redeemed as of November 5, 2018 for an immaterial amount.

The Company's private warrants to purchase 6,700,000 shares of the Company's common stock remain outstanding.

[Table of Contents](#)**Cash Flows**

The following table sets forth the major sources and uses of cash for each of the periods set forth below (in thousands):

	Twenty-Six Weeks Ended	
	February 23, 2019	February 24, 2018
Net cash provided by operating activities	\$ 21,831	\$ 25,351
Net cash used in investing activities	\$ (887)	\$ (2,643)
Net cash provided by (used in) financing activities	\$ 86,225	\$ (269)

Operating activities. Our net cash provided by operating activities was \$21.8 million for the period ended February 23, 2019, a decrease of \$3.5 million, compared to net cash provided by operating activities of \$25.4 million for the period ended February 24, 2018. The decrease was primarily driven by changes in working capital.

Investing activities. Our net cash used in investing activities was \$0.9 million for the period ended February 23, 2019, which was a decrease of \$1.8 million compared to the investing activities for the period ended February 24, 2018. The decrease is due to acquisition related costs of \$1.8 million in the period ended February 24, 2018.

Financing activities. Our net cash provided by financing activities was \$86.2 million for the period ended February 23, 2019, compared to net cash used in financing activities of \$0.3 million for the period ended February 24, 2018. Net cash provided by financing activities for the period ended February 23, 2019 includes \$113.5 million of cash received from warrant exercises, and is partially offset by the payment of the TRA liability of \$26.5 million and debt principal payments of \$1.0 million.

Contractual Obligations

Contractual obligations relating to our indebtedness, lease obligations and interest are reported Part II, Item 7 of our Annual Report. There were no material changes to our contractual obligations since August 25, 2018.

Off-Balance Sheet Arrangements

As of February 23, 2019, we had no material off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, changes in financial condition, income or expenses, results of operations, liquidity, capital expenditures or capital resources.

New Accounting Pronouncements

For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, refer to our Annual Report. The adoption of ASC Topic 606 resulted in a change to our revenue recognition accounting policy, as discussed in Note 3 of our condensed consolidated financial statements in this report. There have been no other significant changes to our critical accounting policies since August 25, 2018. Refer to Note 2 of our condensed consolidated financial statements in this Report for further information regarding recently issued accounting standards.

JOBS Act

Simply Good Foods qualifies as an “emerging growth company” pursuant to the provisions of the JOBS Act, enacted on April 5, 2012. Section 102 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, Simply Good Foods has elected to “opt out” of such extended transition period, and as a result, Simply Good Foods will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Simply Good Foods’ decision to opt out of the extended transition period is irrevocable.

Subject to certain conditions set forth in the JOBS Act, Simply Good Foods is not required to, among other things, (1) provide an auditor's attestation report on our systems of internal controls over financial reporting pursuant to Section 404, (2) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (3) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (4) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply until Simply Good Foods no longer meets the requirements of being an emerging growth company. Simply Good Foods will remain an emerging growth company until the earlier of (a) the last day of the fiscal year (i) following the fifth anniversary of the completion of Conyers Park's initial public offering, which was July 20, 2016, (ii) in which Simply Good Foods has total annual gross revenue of at least \$1.0 billion or (iii) in which Simply Good Foods is deemed to be a large accelerated filer, which means the market value of its common stock that is held by non-affiliates exceeds \$700 million as of the last business day of its prior second fiscal quarter, and (b) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior 3-year period. We expect to cease being an emerging growth company as of the end of our fiscal year ending August 31, 2019.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in our market risk exposure during the thirteen week period ended February 23, 2019. For a discussion of our market risks, see "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures.

Management, including the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of February 23, 2019, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended February 23, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. Other Information

Item 1. Legal Proceedings

From time to time, we have been and may again become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any litigation that we believe to be material and we are not aware of any pending or threatened litigation against us that we believe could have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 1A. Risk Factors

Readers should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report, which could materially affect our business, financial condition, cash flows or future results. There have been no material changes in our risk factors included in our Annual Report. The risks described in our Annual Report are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchase as Part of Publicly Announced Plans or Programs⁽¹⁾	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
November 25, 2018 - December 29, 2018	—	—	—	\$ 50,000,000
December 30, 2018 - January 26, 2019	—	—	—	\$ 50,000,000
January 27, 2019 - February 23, 2019	6,729	\$ 18.92	6,729	\$ 49,872,687
Total	6,729	\$ 18.92	6,729	\$ 49,872,687

⁽¹⁾ On November 13, 2018, the Company announced that its Board of Directors had approved and authorized a \$50.0 million stock repurchase program. As of February 23, 2019, approximately \$49.9 million remained available for repurchase under the stock repurchase program. Under the stock repurchase program, the Company may repurchase shares from time to time in the open market or in privately negotiated transactions. The stock repurchase program does not obligate the Company to acquire any specific number of shares or acquire shares over any specific period of time. The stock repurchase program may be suspended or discontinued at any time by the Company, and does not have an expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Document
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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.

THE SIMPLY GOOD FOODS COMPANY

Date: April 4, 2019

By: /s/ Timothy A. Matthews
Name: Timothy A. Matthews
Title: Vice President, Controller, and Chief Accounting Officer
(Principal Accounting Officer)

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE U.S. SECURITIES EXCHANGE ACT OF 1934
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Joseph E. Scalzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Simply Good Foods Company (the "registrant");
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: April 4, 2019 By: /s/ Joseph E. Scalzo

Name: Joseph E. Scalzo
 Title: Chief Executive Officer, President and Director
(Principal Executive Officer)

CERTIFICATION
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE U.S. SECURITIES EXCHANGE ACT OF 1934
(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Todd E. Cunfer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Simply Good Foods Company (the "registrant");
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: April 4, 2019 By: /s/ Todd E. Cunfer
 Name: Todd E. Cunfer
 Title: Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the Quarterly Report of The Simply Good Foods Company (the "Company") on Form 10-Q for the fiscal period ended February 23, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company covered by the Report.

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: April 4, 2019 By: /s/ Joseph E. Scalzo

Name: Joseph E. Scalzo
Title: Chief Executive Officer, President and Director
(Principal Executive Officer)

Date: April 4, 2019 By: /s/ Todd E. Cunfer

Name: Todd E. Cunfer
Title: Chief Financial Officer
(Principal Financial Officer)