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 November 24, 2018

OR

o **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 Date 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 December 21, 2018, there were 81,888,474 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 NOVEMBER 24, 2018

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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)

	November 24, 2018	August 25, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 210,761	$ 111,971
Accounts receivable, net	37,132	36,622
Inventories	38,056	30,001
Prepaid expenses	4,108	2,069
Other current assets	6,649	5,077
Total current assets	296,706	185,740
Long-term assets:		
Property and equipment, net	2,799	2,565
Intangible assets, net	311,017	312,643
Goodwill	471,427	471,427
Other long-term assets	3,402	2,230
Total assets	$ 1,085,351	$ 974,605
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 16,875	$ 11,158
Accrued interest	546	582
Accrued expenses and other current liabilities	14,270	15,875
Current portion of TRA liability	—	2,320
Current maturities of long-term debt	650	648
Total current liabilities	32,341	30,583
Long-term liabilities:		
Long-term debt, less current maturities	190,767	190,935
Long-term portion of TRA liability	—	25,148
Deferred income taxes	58,937	54,475
Other long-term liabilities	728	863
Total liabilities	282,773	302,004
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, 81,877,918 and 70,605,675 issued and outstanding at November 24, 2018 and August 25, 2018, respectively	819	706
Additional paid-in-capital	728,864	614,399
Retained earnings	73,551	58,294
Accumulated other comprehensive loss	(656)	(798)
Total stockholders' equity	802,578	672,601
Total liabilities and stockholders' equity	$ 1,085,351	$ 974,605

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	
	November 24, 2018	November 25, 2017
Net sales	$ 120,931	$ 106,587
Cost of goods sold	61,820	53,830
Gross profit	59,111	52,757
Operating expenses:		
Distribution	5,284	4,817
Selling	3,856	3,903
Marketing	11,463	9,850
General and administrative	13,868	12,079
Depreciation and amortization	1,886	1,934
Business transaction costs	1,039	—
Loss in fair value change of contingent consideration - TRA liability	533	642
Other expense	—	246
Total operating expenses	37,929	33,471
Income from operations	21,182	19,286
Other income (expense):		
Interest income	781	—
Interest expense	(3,261)	(3,019)
Gain on settlement of TRA liability	1,534	—
(Loss) gain on foreign currency transactions	(398)	355
Other income	44	86
Total other expense	(1,300)	(2,578)
Income before income taxes	19,882	16,708
Income tax expense	4,625	6,490
Net income	$ 15,257	$ 10,218
Other comprehensive income:		
Foreign currency translation adjustments	142	(699)
Comprehensive income	$ 15,399	$ 9,519
Earnings per share from net income:		
Basic	$ 0.20	$ 0.14
Diluted	$ 0.18	$ 0.14
Weighted average shares outstanding:		
Basic	77,290,307	70,571,008
Diluted	82,774,761	71,240,590

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)

	Thirteen Weeks Ended	
	November 24, 2018	November 25, 2017
Operating activities		
Net income	$ 15,257	$ 10,218
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,886	1,934
Amortization of deferred financing costs and debt discount	334	322
Stock compensation expense	1,061	1,068
Loss on fair value change of contingent consideration - TRA liability	533	642
Gain on settlement of TRA liability	(1,534)	—
Unrealized gain (loss) on foreign currency transactions	398	(355)
Deferred income taxes	4,465	3,125
Changes in operating assets and liabilities:		
Accounts receivable, net	(592)	(6,985)
Inventories	(8,112)	(2,688)
Prepaid expenses	(2,042)	(375)
Other current assets	(2,567)	53
Accounts payable	5,777	2,627
Accrued interest	(36)	(30)
Accrued expenses and other current liabilities	(1,885)	(767)
Other	5	44
Net cash provided by operating activities	12,948	8,833
Investing activities		
Purchases of property and equipment	(494)	(661)
Acquisition of business, net of cash acquired	—	(1,757)
Net cash used in investing activities	(494)	(2,418)
Financing activities		
Proceeds from option exercises	53	—
Cash received from warrant exercises	113,464	—
Settlement of TRA liability	(26,468)	—
Principal payments of long-term debt	(500)	—
Net cash provided by financing activities	86,549	—
Cash and cash equivalents		
Net increase in cash	99,003	6,415
Effect of exchange rate on cash	(213)	(41)
Cash at beginning of period	111,971	56,501
Cash and cash equivalents at end of period	$ 210,761	$ 62,875
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 2,963	$ 2,727
Cash paid for taxes	$ 353	$ 341

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		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance at August 25, 2018	70,605,675	$ 706	$ 614,399	$ 58,294	$ (798)	$ 672,601
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	11,200,299	112	113,352	—	—	113,464
Balance at November 24, 2018	81,877,918	$ 819	$ 728,864	$ 73,551	$ (656)	$ 802,578

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 acquired Atkins pursuant to the Merger Agreement. As a result, both entities became wholly-owned subsidiaries of Simply Good Foods (the "Business Combination"). Atkins was formerly owned by Roark Capital Management, LLC ("Roark"). 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 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. The provisions of this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual periods. 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. The new guidance is effective for the Company beginning in fiscal 2020. The amendments should 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 Company is currently evaluating the effects adoption of this guidance will have on its consolidated financial statements.

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 new standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for all entities, provided that all of the amendments are adopted in the same period. 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. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. 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. These provisions are to be applied prospectively and are effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within those annual periods. 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. All shipping and handling costs incurred to deliver products are accounted for as fulfillment costs and are included in *Distribution*. 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. The amount of consideration we expect to receive includes estimates of variable consideration, including costs for trade programs, consumer incentives, coupon redemptions and allowances for unsaleable products. These estimates 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. The impact of adjustments to variable consideration are recognized in the period the adjustments are identified. These changes have historically been insignificant. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

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.

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.

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 sets 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.

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.

	Thirteen Weeks Ended	
(In thousands)	November 24, 2018	November 25, 2017
Net sales		
North America	$ 114,606	$ 99,534
International	6,325	7,053
Total	$ 120,931	$ 106,587

4. Goodwill and Intangibles

There were no changes to goodwill during the thirteen weeks ended November 24, 2018.

Intangible assets, net in our condensed consolidated balance sheets consist of the following:

		November 24, 2018		
(In thousands)	Useful life	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	5,432	53,568
Proprietary recipes and formulas	7 years	7,000	1,381	5,619
Licensing agreements	14 years	22,000	2,170	19,830
		$ 320,000	$ 8,983	$ 311,017

		August 25, 2018		
(In thousands)	Useful life	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 November 24, 2018 and November 25, 2017 were $1.6 million and $1.6 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	$ 4,879
2020	6,505
2021	6,505
2022	6,505
2023	6,505
2024 and thereafter	48,118
Total	$ 79,017

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.

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 is subject to mandatory prepayments based on contractual terms.

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 covenants under the Credit Agreement as of November 24, 2018 and August 25, 2018.

At November 24, 2018 and August 25, 2018, there were no amounts drawn against the Revolving Credit Facility. Long-term debt consists of the following:

(In thousands)	November 24, 2018	August 25, 2018
Term Loan	$ 198,000	$ 198,500
Less: Deferred financing fees	6,583	6,917
Total debt	191,417	191,583
Less: Current maturities, net of deferred financing fees of $1.4 million at November 24, 2018 and August 25, 2018, respectively	650	648
Long-term debt, net of deferred financing fees	$ 190,767	$ 190,935

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 November 24, 2018 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:

(In thousands)	Level 1	Level 2	Level 3	Total
Liabilities				
TRA liability	$ —	$ —	$ 27,468	$ 27,468

A loss of $0.5 million and $0.6 million was charged to the *Loss in fair value change of contingent consideration - TRA liability* for the thirteen weeks ended November 24, 2018 and November 25, 2017, respectively. The Company settled the Income Tax Receivable Agreement (the "TRA") during the thirteen weeks ended November 24, 2018, 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 November 24, 2018 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 November 24, 2018, we have not completed our accounting for the tax effects of enactment of the Tax Act; however, as described below, we have made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax and have 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.

Provisional Amounts

The Tax Act reduces the corporate federal tax rate to 21%, effective January 1, 2018. While we are able to make a reasonable estimate of the impact of the reduction in corporate rate, it may be affected by other analysis related to the Tax Act, including, but not limited to, our calculation of deemed repatriation of deferred foreign income and the state tax effect of adjustments made to federal temporary differences.

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 immaterial provisional amounts for our one-time transition tax liability for of our foreign subsidiaries, resulting in an immaterial increase in income tax expense. We have not yet completed our calculation of the total post-1986 E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. We are continuing to gather additional information to compute the amount of the transition tax more precisely.

Effective Tax Rate

The following table shows the tax expense and the effective tax rate for the thirteen weeks ended November 24, 2018 and November 25, 2017 resulting from operations:

	Thirteen Weeks Ended	
(In thousands)	November 24, 2018	November 25, 2017
Income before income taxes	$ 19,882	$ 16,708
Provision for income taxes	$ 4,625	$ 6,490
Effective tax rate	23.3%	38.8%

The effective tax rate for the thirteen week period ended November 24, 2018 is lower than the effective tax rate for the thirteen week period ended November 25, 2017 by 15.5%, 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.

Tax Receivable Agreement

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 date 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 November 24, 2018 and November 25, 2017, rent expenses were $0.5 million and $0.6 million, respectively.

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 November 24, 2018, the Company will be required to make payments of $1.6 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.

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.

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. The Company did not repurchase any shares of common stock during the thirteen weeks ended November 24, 2018.

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:

	Thirteen Weeks Ended	
(In thousands, except per share data)	November 24, 2018	November 25, 2017
Basic earnings per share computation:		
Numerator:		
Net income available to common stock shareholders	$ 15,257	$ 10,218
Denominator:		
Weighted average common shares - basic	77,290,307	70,571,008
Basic earnings per share from net income	$ 0.20	$ 0.14
Diluted earnings per share computation:		
Numerator:		
Net income available to common stock shareholders	$ 15,257	$ 10,218
Denominator:		
Weighted average common shares outstanding - basic	77,290,307	70,571,008
Public and Private Warrants	4,892,604	659,301
Employee stock options	559,659	—
Non-vested shares	32,191	10,281
Weighted average common shares - diluted	82,774,761	71,240,590
Diluted earnings per share from net income	$ 0.18	$ 0.14

Earnings per share calculations for the thirteen weeks ended November 24, 2018 and November 25, 2017 excluded 0.2 million and 2.6 million shares of stock options, respectively, 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 $1.1 million of stock-based compensation expense in each of the thirteen weeks ended November 24, 2018 and November 25, 2017.

Stock Options

The following table summarizes stock option activity for the thirteen weeks ended November 24, 2018:

	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	(4,444)	12.00	
Forfeited	—	—	
Outstanding as of November 24, 2018	2,816,970	$ 13.13	8.77
Vested and expected to vest as of November 24, 2018	2,816,970	$ 13.13	8.77
Exercisable as of November 24, 2018	782,926	$ 12.00	8.32

As of November 24, 2018, the Company had $7.6 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 1.94 years. During the thirteen week period ended November 24, 2018, the Company received $0.1 million in cash from stock option exercises.

Restricted Stock Units

The following table summarizes restricted stock unit activity for the thirteen weeks ended November 24, 2018:

	Units	Weighted average grant-date fair value
Non-vested as of August 25, 2018	111,085	$ 12.06
Granted	74,570	18.67
Vested	(67,500)	11.91
Forfeited	—	—
Non-vested as of November 24, 2018	118,155	$ 16.32

As of November 24, 2018, the Company had $1.6 million of total unrecognized compensation cost related to restricted stock units that will be recognized over a weighted average period of 1.67 years.

Performance Stock Units

During the thirteen weeks ended November 24, 2018, 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.

The following table summarizes performance stock unit activity for the thirteen weeks ended November 24, 2018:

	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 November 24, 2018	193,512	$ 11.93

As of November 24, 2018, the Company had $2.3 million of total unrecognized compensation cost related to performance stock units that will be recognized over a weighted average period of 2.96 years.

12. Related Party Transactions

Tax Receivable Agreement

During the thirteen weeks ended November 24, 2018, 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 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 resulted in an 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 Item 8 of 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

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 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.

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. The Company also includes 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 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

The Company continues to be driven by strong base velocity gains of our core products. The Company maintained strong retail momentum, with U.S. retail takeaway for the thirteen weeks ended November 24, 2018, up 23.5%. Net sales increased 13.5% driven by volume, offset partially by non-price related trade, resulting in double-digit gross profit and adjusted EBITDA growth. As expected, retail takeaway growth exceeded net sales as we worked with our manufacturing network partners to secure additional supply to keep pace with robust demand. However, due to continued strong point of sales growth we estimate that supply issues will persist. Our strong start to the year and progress in securing more supply give us confidence in our ability to deliver full-year net sales and adjusted EBITDA.

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.

Comparison of Unaudited Results for the Thirteen Weeks Ended November 24, 2018 and the Thirteen Weeks Ended November 25, 2017

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)	Thirteen Weeks Ended November 24, 2018	% of Sales	Thirteen Weeks Ended November 25, 2017	% of Sales
Net sales	$ 120,931	100.0 %	$ 106,587	100.0 %
Cost of goods sold	61,820	51.1 %	53,830	50.5 %
Gross profit	59,111	48.9 %	52,757	49.5 %
Operating expenses:				
Distribution	5,284	4.4 %	4,817	4.5 %
Selling	3,856	3.2 %	3,903	3.7 %
Marketing	11,463	9.5 %	9,850	9.2 %
General and administrative	13,868	11.5 %	12,079	11.3 %
Depreciation and amortization	1,886	1.6 %	1,934	1.8 %
Business transaction costs	1,039	0.9 %	—	— %
Loss in fair value change of contingent consideration - TRA liability	533	0.4 %	642	0.6 %
Other expense	—	— %	246	0.2 %
Total operating expenses	37,929	31.4 %	33,471	31.4 %
Income from operations	21,182	17.5 %	19,286	18.1 %
Other income (expense):				
Interest income	781	0.6 %	—	— %
Interest expense	(3,261)	(2.7)%	(3,019)	(2.8)%
Gain on settlement of TRA liability	1,534	1.3 %	—	— %
(Loss) gain on foreign currency transactions	(398)	(0.3)%	355	0.3 %
Other income	44	— %	86	0.1 %
Total other expense	(1,300)	(1.1)%	(2,578)	(2.4)%
Income before income taxes	19,882	16.4 %	16,708	15.7 %
Income tax expense	4,625	3.8 %	6,490	6.1 %
Net income	$ 15,257	12.6 %	$ 10,218	9.6 %
Other financial data:				
Adjusted EBITDA	$ 26,700	22.1 %	$ 23,710	22.2 %

Net sales. Net sales of $120.9 million represented an increase of $14.3 million, or 13.5%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The net sales increase of 13.5% was driven by volume growth, primarily due to strong U.S. retail takeaway, offset slightly by the addition of unfavorable non-price related trade promotions.

Cost of goods sold. Cost of goods sold increased $8.0 million, or 14.8%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The cost of goods sold increase is driven by sales volume growth and slightly higher supply chain costs.

Gross profit. Gross profit increased $6.4 million, or 12.0%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. Gross profit of $59.1 million, or 48.9% of net sales, for the thirteen weeks ended November 24, 2018 decreased 60 basis points from 49.5% of net sales for the thirteen weeks ended November 25, 2017. The decline in gross margin was primarily due to non-price related customer activity that is a reclassification from selling expense. Additionally, the Company incurred slightly higher supply chain costs.

Operating expenses. Operating expenses increased $4.5 million, or 13.3%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017 due to the following:

- *Distribution.* Distribution expenses increased $0.5 million, or 9.7%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The increase is primarily driven by sales volume growth.

- *Selling.* Selling expenses for the thirteen weeks ended November 24, 2018 were slightly lower than the thirteen weeks ended November 25, 2017, however, decreased on a rate basis due to a portion of the expense being recorded as non-price related trade promotions.

- *Marketing.* Marketing expenses increased $1.6 million, or 16.4%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The increase is primarily driven by an increase in television media and e-commerce capabilities.

- *General and administrative.* General and administrative expenses increased $1.8 million, or 14.8%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The increase is due to investments to enhance organizational capabilities in key functions of $0.9 million, an increase in professional fees of $0.4 million and an expansion of our distribution center of $0.2 million.

- *Depreciation and amortization.* Depreciation and amortization expenses for the thirteen weeks ended November 24, 2018 were flat compared to the thirteen weeks ended November 25, 2017.

- *Loss in fair value change of contingent consideration - TRA liability*. Loss in contingent consideration decreased $0.1 million for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. The decrease is due to the timing of the settlement of the TRA liability during the thirteen weeks ended November 24, 2018.

Interest income. Interest income increased $0.8 million for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017, due to the Company's increased cash balance resulting from warrant exercises during the thirteen weeks ended November 24, 2018 and changes in market rates.

Interest expense. Interest expense increased $0.2 million for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017, 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 thirteen weeks ended November 24, 2018. 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 $0.4 million in foreign currency transactions was recorded for the thirteen weeks ended November 24, 2018 compared to a foreign currency gain of $0.4 million for the thirteen weeks ended November 25, 2017. The change relates to changes in foreign currency rates related to international operations.

Income tax expense. Income tax expense decreased $1.9 million, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. Our effective tax rate was 23.3% for the thirteen weeks ended November 24, 2018 compared to an effective tax rate 38.8% for the thirteen weeks ended November 25, 2017. The decrease in our effective tax rate is primarily attributed to the lower federal statutory rate enacted by the change in tax law, and also by the one time impact of the settlement of the TRA. The change in tax law is discussed in Note 7 of the condensed consolidated financial statements included in this Report.

Adjusted EBITDA. Adjusted EBITDA increased $3.0 million, or 12.6%, for the thirteen weeks ended November 24, 2018 compared to the thirteen weeks ended November 25, 2017. 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, cash flows from operations or other measures of profitability, liquidity or performance 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, frozen media licensing fees, 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 ended November 24, 2018 and November 25, 2017:

Adjusted EBITDA Reconciliation: ***(in thousands)***	Thirteen Weeks Ended	
	November 24, 2018	November 25, 2017
Net income	15,257	10,218
Interest income	(781)	—
Interest expense	3,261	3,019
Income tax expense	4,625	6,490
Depreciation and amortization	1,886	1,934
EBITDA	24,248	21,661
Business transaction costs	1,039	—
Share-based compensation expense	1,061	1,068
Restructuring	—	246
Frozen licensing media	—	63
Non-core legal costs	942	376
Loss in fair value change of contingent consideration - TRA liability	533	642
Gain on settlement of TRA liability	(1,534)	—
Other [(1)]	411	(346)
Adjusted EBITDA	$ 26,700	$ 23,710

[(1)] Other items consist principally of exchange impact of foreign currency transactions 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.

The Company had $210.8 million in cash and cash equivalents as of November 24, 2018, 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 is subject to mandatory prepayments based on contractual terms.

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 covenants under the Credit Agreement as of November 24, 2018 and August 25, 2018.

At November 24, 2018 the outstanding principal balance of the Term Loan was $198.0 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.

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

Cash Flows

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

	Thirteen Weeks Ended	
	November 24, 2018	November 25, 2017
Net cash provided by operating activities	$ 12,948	$ 8,833
Net cash used in investing activities	$ (494)	$ (2,418)
Net cash provided by financing activities	$ 86,549	$ —

Operating activities. Our net cash provided by operating activities was $12.9 million for the period ended November 24, 2018, an increase of $4.1 million, compared to net cash provided by operating activities of $8.8 million for the period ended November 25, 2017. The increase was primarily driven by higher income before taxes.

Investing activities. Our net cash used in investing activities was $0.5 million for the period ended November 24, 2018, which was a decrease of $1.9 million compared to the investing activities for the period ended November 25, 2017. The decrease is due to the working capital adjustment of $1.8 million in the period ended November 25, 2017 and minor decreases in purchases of property and equipment.

Financing activities. Our net cash provided by financing activities was $86.5 million for the period ended November 24, 2018, compared to $0.0 million for the period ended November 25, 2017. Net cash provided by financing activities for the period ended November 24, 2018 includes $113.5 million of cash received from warrant exercises, partially offset by the payment of the TRA liability of $26.5 million and debt principal payments of $0.5 million.

Contractual Obligations

Contractual obligations relating to our indebtedness, lease obligations and interest are reported Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended August 25, 2018. There were no material changes to our contractual obligations since August 25, 2018.

Off-Balance Sheet Arrangements

As of November 24, 2018, 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.

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 November 24, 2018. 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 November 24, 2018, 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 November 24, 2018 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

None.

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
10.1	Termination Agreement, dated November 14, 2018, among The Simply Good Foods Company, Atkins Holdings, LLC and Roark Capital Acquisition, LLC (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 16, 2018).
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

		By:	/s/ Timothy A. Matthews
Date:	January 3, 2019	Name:	Timothy A. Matthews
		Title:	Vice President, Controller, and Chief Accounting Officer
			(Principal Accounting Officer)

Exhibit 31.1

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: January 3, 2019	By:	/s/ Joseph E. Scalzo
	Name:	Joseph E. Scalzo
	Title:	Chief Executive Officer, President and Director
		(Principal Executive Officer)

Exhibit 31.2

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: January 3, 2019	By:	/s/ Todd E. Cunfer
	Name:	Todd E. Cunfer
	Title:	Chief Financial Officer
		(Principal Financial Officer)

Exhibit 32.1

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 November 24, 2018 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: January 3, 2019	By:	/s/ Joseph E. Scalzo
	Name:	Joseph E. Scalzo
	Title:	Chief Executive Officer, President and Director
		(Principal Executive Officer)

Date: January 3, 2019	By:	/s/ Todd E. Cunfer
	Name:	Todd E. Cunfer
	Title:	Chief Financial Officer
		(Principal Financial Officer)