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 25, 2023

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)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	SMPL	Nasdaq

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 March 30, 2023, there were 99,512,880 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 25, 2023

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PART I. Financial Information

Item 1. Financial Statements (Unaudited)

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

	February 25, 2023	August 27, 2022
Assets		
Current assets:		
Cash	$ 63,207	$ 67,494
Accounts receivable, net	148,250	132,667
Inventories	114,008	125,479
Prepaid expenses	7,173	5,027
Other current assets	27,005	20,934
Total current assets	359,643	351,601
Long-term assets:		
Property and equipment, net	17,211	18,157
Intangible assets, net	1,115,507	1,123,258
Goodwill	543,134	543,134
Other long-term assets	53,184	58,099
Total assets	$ 2,088,679	$ 2,094,249
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 59,400	$ 62,149
Accrued interest	172	160
Accrued expenses and other current liabilities	20,591	39,675
Current maturities of long-term debt	240	264
Total current liabilities	80,403	102,248
Long-term liabilities:		
Long-term debt, less current maturities	362,622	403,022
Deferred income taxes	112,411	105,676
Other long-term liabilities	41,328	44,639
Total liabilities	596,764	655,585
See commitments and contingencies (Note 9)		
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, 101,873,171 and 101,322,834 shares issued at February 25, 2023 and August 27, 2022, respectively	1,019	1,013
Treasury stock, 2,365,100 shares and 1,818,754 shares at cost at February 25, 2023 and August 27, 2022, respectively	(78,451)	(62,003)
Additional paid-in-capital	1,295,584	1,287,224
Retained earnings	275,883	214,381
Accumulated other comprehensive loss	(2,120)	(1,951)
Total stockholders' equity	1,491,915	1,438,664
Total liabilities and stockholders' equity	$ 2,088,679	$ 2,094,249

See accompanying notes to the unaudited consolidated financial statements.

The Simply Good Foods Company and Subsidiaries
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 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Net sales	$ 296,584	$ 296,718	$ 597,462	$ 577,983
Cost of goods sold	193,852	188,195	383,738	352,905
Gross profit	102,732	108,523	213,724	225,078
Operating expenses:				
Selling and marketing	29,948	31,955	58,482	62,482
General and administrative	25,934	26,288	51,575	49,990
Depreciation and amortization	4,345	4,329	8,672	8,649
Total operating expenses	60,227	62,572	118,729	121,121
Income from operations	42,505	45,951	94,995	103,957
Other income (expense):				
Interest income	246	—	253	1
Interest expense	(8,497)	(5,276)	(15,552)	(11,647)
Loss in fair value change of warrant liability	—	(12,745)	—	(30,062)
(Loss) gain on foreign currency transactions	(214)	780	(106)	427
Other income	—	—	6	9
Total other expense	(8,465)	(17,241)	(15,399)	(41,272)
Income before income taxes	34,040	28,710	79,596	62,685
Income tax expense	8,398	10,249	18,094	23,072
Net income	$ 25,642	$ 18,461	$ 61,502	$ 39,613
Other comprehensive income:				
Foreign currency translation, net of reclassification adjustments	53	(708)	(169)	(748)
Comprehensive income	$ 25,695	$ 17,753	$ 61,333	$ 38,865
Earnings per share from net income:				
Basic	$ 0.26	$ 0.19	$ 0.62	$ 0.41
Diluted	$ 0.25	$ 0.18	$ 0.61	$ 0.40
Weighted average shares outstanding:				
Basic	99,495,657	98,599,271	99,346,439	97,228,058
Diluted	100,840,887	100,414,770	100,802,169	99,152,961

See accompanying notes to the unaudited consolidated financial statements.

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

	Twenty-Six Weeks Ended	
	February 25, 2023	February 26, 2022
Operating activities		
Net income	$ 61,502	$ 39,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,904	9,572
Amortization of deferred financing costs and debt discount	1,219	1,332
Stock compensation expense	6,332	5,697
Change in fair value change of warrant liability	—	30,062
Estimated credit losses	219	(5)
Unrealized loss (gain) on foreign currency transactions	106	(427)
Deferred income taxes	6,845	11,814
Amortization of operating lease right-of-use asset	3,330	3,293
Gain on lease termination	—	(30)
Other	118	571
Changes in operating assets and liabilities:		
Accounts receivable, net	(15,899)	(6,880)
Inventories	11,063	(24,241)
Prepaid expenses	(2,145)	(1,695)
Other current assets	(4,096)	(29,211)
Accounts payable	(2,359)	6,109
Accrued interest	12	120
Accrued expenses and other current liabilities	(19,583)	(12,098)
Other assets and liabilities	(3,222)	(3,273)
Net cash provided by operating activities	53,346	30,323
Investing activities		
Purchases of property and equipment	(1,738)	(4,339)
Issuance of note receivable	—	(1,500)
Investments in intangible and other assets	(195)	(187)
Net cash used in investing activities	(1,933)	(6,026)
Financing activities		
Proceeds from option exercises	4,791	1,474
Tax payments related to issuance of restricted stock units and performance stock units	(2,401)	(3,289)
Payments on finance lease obligations	(151)	(157)
Repurchase of common stock	(16,448)	(20,394)
Principal payments of long-term debt	(41,500)	(25,000)
Deferred financing costs	—	(544)
Net cash used in financing activities	(55,709)	(47,910)
Cash and cash equivalents		
Net decrease in cash	(4,296)	(23,613)
Effect of exchange rate on cash	9	(263)
Cash at beginning of period	67,494	75,345
Cash and cash equivalents at end of period	$ 63,207	$ 51,469

	Twenty-Six Weeks Ended			
	February 25, 2023		February 26, 2022	
Supplemental disclosures of cash flow information				
Cash paid for interest	$	14,321	$	10,195
Cash paid for taxes	$	15,747	$	33,162
Non-cash investing and financing transactions				
Issuance of common stock in extinguishment of warrant liabilities	$	—	$	189,897
Operating lease right-of-use assets exchanged for operating lease liabilities	$	—	$	5,551
Non-cash credits for repayment of note receivable	$	78	$	—

See accompanying notes to the unaudited consolidated financial statements.

The Simply Good Foods Company and Subsidiaries
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 27, 2022	101,322,834	$ 1,013	1,818,754	$ (62,003)	$ 1,287,224	$ 214,381	$ (1,951)	$ 1,438,664
Net income	—	—	—	—	—	35,860	—	35,860
Stock-based compensation	—	—	—	—	3,237	—	—	3,237
Foreign currency translation adjustments	—	—	—	—	—	—	(222)	(222)
Repurchase of common stock	—	—	546,346	(16,448)	—	—	—	(16,448)
Shares issued upon vesting of restricted stock units and performance stock units	180,342	2	—	—	(2,300)	—	—	(2,298)
Exercise of options and stock appreciation rights to purchase common stock	353,281	4	—	—	4,559	—	—	4,563
Balance at November 26, 2022	101,856,457	$ 1,019	2,365,100	$ (78,451)	$ 1,292,720	$ 250,241	$ (2,173)	$ 1,463,356
Net income	—	—	—	—	—	25,642	—	25,642
Stock-based compensation	—	—	—	—	2,739	—	—	2,739
Foreign currency translation adjustments	—	—	—	—	—	—	53	53
Shares issued upon vesting of restricted stock units	4,584	—	—	—	(103)	—	—	(103)
Exercise of options to purchase common stock	12,130	—	—	—	228	—	—	228
Balance at February 25, 2023	101,873,171	$ 1,019	2,365,100	(78,451)	1,295,584	$ 275,883	(2,120)	1,491,915

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 28, 2021	95,882,908	$ 959	98,234	$ (2,145)	$ 1,085,001	$ 105,807	$ (818)	$ 1,188,804
Net income	—	—	—	—	—	21,152	—	21,152
Stock-based compensation	—	—	—	—	2,605	—	—	2,605
Foreign currency translation adjustments	—	—	—	—	—	—	(40)	(40)
Shares issued upon vesting of restricted stock units and performance stock units	227,729	2	—	—	(3,190)	—	—	(3,188)
Exercise of options to purchase common stock	19,804	—	—	—	274	—	—	274
Balance at November 27, 2021	96,130,441	$ 961	98,234	$ (2,145)	$ 1,084,690	$ 126,959	$ (858)	$ 1,209,607
Net income	—	—	—	—	—	18,461	—	18,461
Stock-based compensation	—	—	—	—	3,092	—	—	3,092
Foreign currency translation adjustments	—	—	—	—	—	—	439	439
Reclassification adjustment for currency translation gains related to the liquidation of foreign entities	—	—	—	—	—	—	(1,147)	(1,147)
Repurchase of common stock	—	—	571,521	(20,394)	—	—	—	(20,394)
Warrant conversion	4,830,761	48	—	—	189,849	—	—	189,897
Shares issued upon vesting of restricted stock units	9,679	1	—	—	(102)	—	—	(101)
Exercise of options to purchase common stock	100,000	1	—	—	1,199	—	—	1,200
Balance at February 26, 2022	101,070,881	1,011	669,755	(22,539)	1,278,728	145,420	(1,566)	1,401,054

See accompanying notes to the unaudited consolidated financial statements.

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

1. Nature of Operations and Principles of Consolidation

Description of Business

The Simply Good Foods Company ("Simply Good Foods" or the "Company") is a consumer packaged food and beverage company that aims to lead the nutritious snacking movement with trusted brands that offer a variety of convenient, innovative, great-tasting, better-for-you snacks and meal replacements, and other product offerings. The product portfolio the Company develops, markets and sells consists primarily of protein bars, ready-to-drink ("RTD") shakes, sweet and salty snacks and confectionery products marketed under the Atkins®, Atkins Endulge®, Quest® and Quest Hero™ brand names. Simply Good Foods is poised to expand its wellness platform through innovation and organic growth along with acquisition opportunities in the nutritional snacking space.

The Company's nutritious snacking platform consists of brands that specialize in providing products for consumers that follow certain nutritional philosophies and health-and-wellness trends: Atkins® for those following a low-carb lifestyle and Quest® for consumers seeking a variety of protein-rich foods and beverages that also limit sugars and simple carbs. The Company distributes its products in major retail channels, primarily in North America, including grocery, club, and mass merchandise, as well as through e-commerce, convenience, specialty, and other channels. The Company's portfolio of nutritious snacking brands gives it a strong platform with which to introduce new products, expand distribution, and attract new consumers to its products.

The common stock of Simply Good Foods is listed on the Nasdaq Capital Market under the symbol "SMPL."

Unaudited Interim Consolidated Financial Statements

The unaudited interim consolidated financial statements include the accounts of Simply Good Foods and its wholly-owned subsidiaries. All 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, ending on the last Saturday in August of each year.

The interim consolidated financial statements and related notes of the Company and its subsidiaries are unaudited. The unaudited interim 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 unaudited interim consolidated financial statements reflect all adjustments and disclosures which are, in the Company's 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 unless otherwise disclosed. 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. The results reported in these unaudited interim consolidated financial statements are not necessarily indicative of the results that may be reported for the entire fiscal year and should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended August 27, 2022, included in the Company's Annual Report on Form 10-K ("Annual Report") filed with the SEC on October 21, 2022.

The ultimate effect the supply chain challenges, cost pressures, current high inflation environment, and the possible economic recession could have on consumer purchasing patterns and on the Company's business continues to be not fully known. Additionally, management is continuing to monitor the conflict in Ukraine, especially regarding the availability and cost of raw materials that are produced in this region and Europe in general. Management is also monitoring the situation in Eastern Europe for its possible supply chain and consumer consumption effects on the Company's business.

2. Summary of Significant Accounting Policies

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

Recently Issued and Adopted Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"), which provides optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. Additionally, in December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848, which extended the period of time for which ASU 2020-04 could be applied. As a result, the amendments in ASU 2020-04 can be applied to contract modifications due to rate reform and eligible existing and new hedging relationships entered into between March 12, 2020 and December 31, 2024. The amendments of these ASUs are effective for all entities and should be applied on a prospective basis.

On January 21, 2022, the Company entered into a repricing amendment (the "2022 Repricing Amendment") to its credit agreement with Barclays Bank PLC and other parties (as amended to date, the "Credit Agreement"), as described in Note 5, Long-Term Debt and Line of Credit. In addition to replacing the London Interbank Offered Rate ("LIBOR") as the Credit Agreement's reference rate with the Secured Overnight Financing Rate ("SOFR"), the 2022 Repricing Amendment contemporaneously modified other terms that changed, or had the potential to change, the amount or timing of contractual cash flows as contemplated by the guidance in ASU 2020-04. As such, the contract modifications related to the 2022 Repricing Amendment were outside of the scope of the optional guidance in ASU 2020-04. The Company will continue to monitor the effects of rate reform, if any, on any new or amended contracts through December 31, 2024. The Company does not anticipate the amendments in this ASU will be material to its consolidated financial statements.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material effect on the Company's consolidated financial statements.

3. Revenue Recognition

Revenue from transactions with external customers for each of the Company's products would be impracticable to disclose and management does not view its business by product line. The following is a summary of revenue disaggregated by geographic area and brands:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(In thousands)	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
North America [1]				
Atkins	$ 134,351	$ 135,582	$ 266,096	$ 269,376
Quest	154,598	152,573	316,070	290,867
Total North America	288,949	288,155	582,166	560,243
International	7,635	8,563	15,296	17,740
Total net sales	$ 296,584	$ 296,718	$ 597,462	$ 577,983

[1] The North America geographic area consists of net sales substantially related to the United States and there is no individual foreign country to which more than 10% of the Company's net sales are attributed or that is otherwise deemed individually material.

Charges related to credit loss on accounts receivables from transactions with external customers were $0.4 million and $0.2 million for the thirteen and twenty-six weeks ended February 25, 2023, respectively. Charges related to credit loss on accounts receivables from transactions with external customers were immaterial for the thirteen and twenty-six weeks ended February 26, 2022. As of February 25, 2023 and August 27, 2022, the allowances for doubtful accounts related to these accounts receivable were $1.8 million and $1.2 million, respectively. Additionally, as of February 25, 2023, the Company had an expected credit loss reserve of $1.0 million on a $3.0 million note receivable related to the Company's sale of its SimplyProtein® brand and related assets during its fiscal year 2021.

4. Goodwill and Intangibles

As of February 25, 2023 and August 27, 2022, *Goodwill* in the Consolidated Balance Sheets was $543.1 million. There were no impairment charges related to goodwill during the thirteen and twenty-six weeks ended February 25, 2023 or since the inception of the Company.

Intangible assets, net in the Consolidated Balance Sheets consists of the following:

		February 25, 2023		
(In thousands)	Useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets with indefinite life:				
Brands and trademarks	Indefinite life	$ 974,000	$ —	$ 974,000
Intangible assets with finite lives:				
Customer relationships	15 years	174,000	47,503	126,497
Licensing agreements	13 years	22,000	9,540	12,460
Proprietary recipes and formulas	7 years	7,000	5,631	1,369
Software and website development costs	3 - 5 years	5,863	4,793	1,070
Intangible assets in progress	3 - 5 years	111	—	111
		$ 1,182,974	$ 67,467	$ 1,115,507

		August 27, 2022		
(In thousands)	Useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets with indefinite life:				
Brands and trademarks	Indefinite life	$ 974,000	$ —	$ 974,000
Intangible assets with finite lives:				
Customer relationships	15 years	174,000	41,703	132,297
Licensing agreements	13 years	22,000	8,581	13,419
Proprietary recipes and formulas	7 years	7,000	5,131	1,869
Software and website development costs	3 - 5 years	5,863	4,190	1,673
		$ 1,182,863	$ 59,605	$ 1,123,258

Changes in *Intangible assets, net* during the twenty-six weeks ended February 25, 2023 were primarily related to recurring amortization expense. Amortization expense related to intangible assets was $3.9 million and $4.0 million for the thirteen weeks ended February 25, 2023 and February 26, 2022, respectively, and $7.8 million and $7.9 million for the twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively. There were no impairment charges related to intangible assets during the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022.

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

(In thousands)	Amortization
Remainder of 2023	$ 7,792
2024	14,917
2025	13,522
2026	13,517
2027	13,517
2028 and thereafter	78,131
Total	$ 141,396

5. Long-Term Debt and Line of Credit

On July 7, 2017, the Company (through certain of its subsidiaries) entered into the Credit Agreement. The Credit Agreement at that time provided 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 which formed the Company between Conyers Park Acquisition Corp. and NCP-ATK Holdings, Inc. on July 7, 2017, the full $200.0 million of the Term Facility (the "Term Loan") was drawn.

On November 7, 2019, the Company entered into a second amendment (the "Incremental Facility Amendment") to the Credit Agreement to increase the principal borrowed on the Term Facility by $460.0 million. The Term Facility together with the incremental borrowing make up the Initial Term Loans (as defined in the Incremental Facility Amendment). The Incremental Facility Amendment was executed to partially finance the acquisition of Quest Nutrition, LLC on November 7, 2019. No amounts under the Term Facility were repaid as a result of the execution of the Incremental Facility Amendment.

Effective as of December 16, 2021, the Company entered into a third amendment (the "Extension Amendment") to the Credit Agreement. The Extension Amendment provided for an extension of the stated maturity date of the Revolving Commitments and Revolving Loans (each as defined in the Credit Agreement) from July 7, 2022 to the earlier of (i) 91 days prior to the then-effective maturity date of the Initial Term Loans and (ii) December 16, 2026.

On January 21, 2022, the Company entered into the "2022 Repricing Amendment" to the Credit Agreement. The 2022 Repricing Amendment, among other things, (i) reduced the interest rate per annum applicable to the Initial Term Loans outstanding under the Credit Agreement immediately prior to the effective date of the 2022 Repricing Amendment, (ii) reset the prepayment premium for the existing Initial Term Loans to apply to Repricing Transactions (as defined in the Credit Agreement) that occur within six months after the effective date of the 2022 Repricing Amendment, and (iii) implemented SOFR and related replacement provisions for LIBOR.

Effective as of the 2022 Repricing Amendment dated January 21, 2022, 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%, or (c) the Adjusted Term SOFR Rate (as defined in the Credit Agreement) applicable for an interest period of one month plus 1.00% plus (x) 2.25% margin for the Term Loan or (y) 2.00% margin for the Revolving Credit Facility; or

ii. SOFR plus a credit spread adjustment equal to 0.10% for one-month SOFR, 0.15% for up to three-month SOFR and 0.25% for up to six-month SOFR, subject to a floor of 0.50%, plus (x) 3.25% margin for the Term Loan or (y) 3.00% margin for the Revolving Credit Facility.

The Simply Good Foods Company is not a borrower under the Credit Agreement and has not provided a guarantee of the Credit Agreement. Simply Good Foods USA, Inc., is the administrative borrower and certain other subsidiary holding companies are co-borrowers under the Credit Agreement. Each of the Company's domestic subsidiaries that is not a named borrower under the Credit Agreement has provided a guarantee on a secured basis. As security for the payment or performance of the debt under the Credit Agreement, the borrowers and the guarantors have pledged certain equity interests in their respective subsidiaries and granted the lenders a security interest in substantially all of their domestic assets. All guarantors other than Quest Nutrition, LLC are holding companies with no assets other than their investments in their respective subsidiaries.

The Credit Agreement contains certain financial and other covenants that limit the Company's 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 6.00:1.00 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 facilities may result in an event of default. The Company was in compliance with all covenants as of February 25, 2023 and August 27, 2022, respectively.

Long-term debt consists of the following:

(In thousands)	February 25, 2023		August 27, 2022	
Term Facility (effective rate of 8.0% at February 25, 2023)	$	365,000	$	406,500
Finance lease liabilities (effective rate of 5.6% at February 25, 2023)		264		406
Less: Deferred financing fees		2,402		3,620
Total debt		362,862		403,286
Less: Current finance lease liabilities		240		264
Long-term debt, net of deferred financing fees	$	362,622	$	403,022

The Company is not required to make principal payments on the Term Facility over the twelve months following the period ended February 25, 2023. The outstanding balance of the Term Facility is due upon its maturity in July 2024.

As of February 25, 2023, the Company had letters of credit in the amount of $3.5 million outstanding. These letters of credit offset against the $75.0 million availability of the Revolving Credit Facility and exist to support three of the Company's leased buildings and insurance programs relating to workers' compensation. No amounts were drawn against these letters of credit at February 25, 2023.

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 25, 2023 and August 27, 2022, the book value of the Company's debt approximated fair value. The estimated fair value of the Term Loan is valued 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 used:

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.

Level 3 Measurements

During the thirteen and twenty-six weeks ended February 26, 2022, the Company had outstanding liability-classified Private Warrants that allowed holders to purchase 6,700,000 shares of the Company's common stock. Such Private Warrants were held by Conyers Park Sponsor, LLC ("Conyers Park"), a related party, and were exercised on a cashless basis on January 7, 2022 resulting in a net issuance of 4,830,761 shares of the Company's common stock. As a result, there were no outstanding liability-classified Private Warrants as of February 25, 2023 and August 27, 2022. Refer to Note 10, Stockholders' Equity, for additional details regarding the cashless exercise of the Private Warrants.

The Company utilized the Black-Scholes model to estimate the fair value of the Private Warrants at each reporting date. The application of the Black-Scholes model utilizes significant assumptions, including volatility. Significant judgment is required in determining the expected volatility, historically the key assumption, of the Private Warrants. In order to determine the most accurate measure of this volatility, the Company measured expected volatility based on several inputs, including considering a peer group of publicly traded companies, the Company's implied volatility based on traded options, the implied volatility of comparable warrants, and the implied volatility of any outstanding public warrants during the periods they were outstanding. As a result of the unobservable inputs that were used to determine the expected volatility of the Private Warrants, the fair value measurement of these warrants reflected a Level 3 measurement within the fair value measurement hierarchy.

The periodic remeasurement of the warrant liability has been reflected in *Loss in fair value change of warrant liability* within the Consolidated Statements of Operations and Comprehensive Income. The adjustments for the thirteen and twenty-six weeks ended February 26, 2022 were losses of $12.7 million and $30.1 million, respectively.

7. Income Taxes

The tax expense and the effective tax rate resulting from operations were as follows:

(In thousands)	Twenty-Six Weeks Ended February 25, 2023	Twenty-Six Weeks Ended February 26, 2022
Income before income taxes	$ 79,596	$ 62,685
Income tax expense	$ 18,094	$ 23,072
Effective tax rate	22.7 %	36.8 %

The effective tax rate for the twenty-six weeks ended February 25, 2023 was 14.1% less than the effective tax rate for the twenty-six weeks ended February 26, 2022, which was primarily driven by the non-cash change in the fair value of the warrant liability in the prior fiscal period and other permanent differences.

8. Leases

The components of lease expense were as follows:

		Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(In thousands)	Statements of Operations Caption	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Operating lease cost:					
Lease cost	*Cost of goods sold and General and administrative*	$ 2,248	$ 2,273	$ 4,500	$ 4,528
Variable lease cost [1]	*Cost of goods sold and General and administrative*	780	860	1,518	1,513
Total operating lease cost		3,028	3,133	6,018	6,041
Finance lease cost:					
Amortization of right-of-use assets	*Cost of goods sold*	63	68	131	136
Interest on lease liabilities	*Interest expense*	4	8	9	17
Total finance lease cost		67	76	140	153
Total lease cost		$ 3,095	$ 3,209	$ 6,158	$ 6,194

[1] Variable lease cost primarily consists of common area maintenance, such as cleaning and repairs.

The right-of-use assets and corresponding liabilities related to both operating and finance leases are as follows:

(In thousands)	Balance Sheets Caption	February 25, 2023	August 27, 2022
Assets			
Operating lease right-of-use assets	*Other long-term assets*	$ 43,132	$ 46,460
Finance lease right-of-use assets	*Property and equipment, net*	235	367
Total lease assets		$ 43,367	$ 46,827
Liabilities			
Current:			
Operating lease liabilities	*Accrued expenses and other current liabilities*	$ 7,238	$ 6,249
Finance lease liabilities	*Current maturities of long-term debt*	240	264
Long-term:			
Operating lease liabilities	*Other long-term liabilities*	40,814	44,482
Finance lease liabilities	*Long-term debt, less current maturities*	24	142
Total lease liabilities		$ 48,316	$ 51,137

Future maturities of lease liabilities as of February 25, 2023 were as follows:

(In thousands)	Operating Leases	Finance Leases
Fiscal year ending:		
Remainder of 2023	4,603	127
2024	9,424	145
2025	8,680	—
2026	6,880	—
2027	7,036	—
Thereafter	19,848	—
Total lease payments	56,471	272
Less: Interest	(8,419)	(8)
Present value of lease liabilities	$ 48,052	$ 264

The weighted-average remaining lease terms and weighted-average discount rates for operating and finance leases were as follows:

	February 25, 2023	August 27, 2022
Weighted-average remaining lease term (in years)		
Operating leases	6.89	7.27
Finance leases	1.08	1.51
Weighted-average discount rate		
Operating leases	4.7 %	4.7 %
Finance leases	5.6 %	5.6 %

Supplemental and other information related to leases was as follows:

	Twenty-Six Weeks Ended	
(In thousands)	February 25, 2023	February 26, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 4,957	$ 4,990
Operating cash flows from finance leases	$ 239	$ 281
Financing cash flows from finance leases	$ 151	$ 157

9. Commitments and Contingencies

Litigation

The Company is a party to certain litigation and claims that are considered normal to the operations of the business. From time to time, the Company has been and may again become involved in legal proceedings arising in the ordinary course of 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 its management 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 and social media influencers to promote and endorse the Atkins and Quest brands and product lines. 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 25, 2023, the Company will be required to make payments of $3.3 million over the next year.

10. Stockholders' Equity

Stock Repurchase Program

The Company adopted a $50.0 million stock repurchase program on November 13, 2018. On April 13, 2022, and October 21, 2022, the Company announced that its Board of Directors had approved the addition of $50.0 million and $50.0 million, respectively, to its stock repurchase program, resulting in authorized stock repurchases of up to an aggregate of $150.0 million. 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 25, 2023, the Company repurchased 546,346 shares of common stock at an average share price of $30.11 per share. The Company did not repurchase any shares of common stock during the thirteen weeks ended February 25, 2023. During the thirteen and twenty-six weeks ended February 26, 2022, the Company repurchased 571,271 shares of common stock at an average share price of $35.68 per share. As of February 25, 2023, approximately $71.5 million remained available under the stock repurchase program.

Warrants to Purchase Common Stock

During the thirteen and twenty-six weeks ended February 26, 2022, the Company had outstanding liability-classified Private Warrants that allowed holders to purchase 6,700,000 shares of the Company's common stock. Such Private Warrants were held by Conyers Park, a related party. Each whole warrant entitled the holder to purchase one share of the Company's common stock at a price of $11.50 per share. On January 7, 2022, Conyers Park elected to exercise the Private Warrants on a cashless basis, resulting in a net issuance of 4,830,761 shares of the Company's common stock. As a result of the cashless exercise on January 7, 2022, there were no outstanding liability-classified Private Warrants as of February 25, 2023 and August 27, 2022.

As discussed in Note 6, Fair Value of Financial Instruments, the liability-classified warrants were remeasured on a recurring basis, primarily based on observable market data while the related theoretical private warrant volatility assumption within the Black-Scholes model represents a Level 3 measurement within the fair value measurement hierarchy. The periodic fair value remeasurements of the warrant liability have been reflected in *Loss in fair value change of warrant liability* within the Consolidated Statements of Operations and Comprehensive Income.

11. Earnings Per Share

Basic earnings or loss per share is based on the weighted average number of common shares issued and outstanding. In computing diluted earnings per share, basic earnings per share is adjusted for the assumed issuance of all potentially dilutive securities, including the Company's employee stock options, non-vested stock units, and Private Warrants for the periods during which they were outstanding. During periods when the effect of the outstanding Private Warrants was dilutive, the Company assumed share settlement of the instruments as of the beginning of the reporting period and adjusted the numerator to remove the change in fair value of the warrant liability and adjusted the denominator to include the dilutive shares, calculated using the treasury stock method. During periods when the effect of the outstanding Private Warrants was anti-dilutive, the share settlement was excluded.

In periods in which the Company has a net loss, diluted loss per share is based on the weighted average number of common shares issued and outstanding as the effect of including common stock equivalents outstanding would be anti-dilutive.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(In thousands, except per share data)	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Basic earnings per share computation:				
Numerator:				
Net income available to common stockholders	$ 25,642	$ 18,461	$ 61,502	$ 39,613
Denominator:				
Weighted average common shares outstanding - basic	99,495,657	98,599,271	99,346,439	97,228,058
Basic earnings per share from net income	$ 0.26	$ 0.19	$ 0.62	$ 0.41
Diluted earnings per share computation:				
Numerator:				
Net income available for common stockholders	$ 25,642	$ 18,461	$ 61,502	$ 39,613
Numerator for diluted earnings per share	$ 25,642	$ 18,461	$ 61,502	$ 39,613
Denominator:				
Weighted average common shares outstanding - basic	99,495,657	98,599,271	99,346,439	97,228,058
Employee stock options	1,227,507	1,640,199	1,270,406	1,645,793
Non-vested stock units	117,723	175,300	185,324	279,110
Weighted average common shares - diluted	100,840,887	100,414,770	100,802,169	99,152,961
Diluted earnings per share from net income	$ 0.25	$ 0.18	$ 0.61	$ 0.40

Diluted earnings per share calculations for the thirteen and twenty-six weeks ended February 25, 2023 excluded 0.6 million and 0.5 million shares of common stock issuable upon exercise of stock options, respectively, that would have been anti-dilutive. Diluted earnings per share calculations for the thirteen and twenty-six weeks ended February 26, 2022 excluded 0.3 million and 0.3 million shares of common stock issuable upon exercise of stock options, respectively, that would have been anti-dilutive.

Diluted earnings per share calculations for the thirteen and twenty-six weeks ended February 25, 2023 excluded 0.1 million non-vested stock units and 0.1 million non-vested stock units, respectively, that would have been anti-dilutive. Diluted earnings per share calculations for the thirteen and twenty-six weeks ended February 26, 2022 excluded 0.1 million and 0.1 million of non-vested stock units, respectively, that would have been anti-dilutive.

The diluted earnings per share calculations for the thirteen and twenty-six weeks ended February 26, 2022 excluded 0.9 million shares and 1.5 million shares issuable upon exercise of Private Warrants, respectively, that would have been anti-dilutive.

12. Omnibus Incentive Plan

Stock-based compensation includes stock options, restricted stock units, performance stock unit awards and stock appreciation rights, which are awarded to employees, directors, and consultants of the Company. Stock-based compensation expense for equity-classified awards 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 stock-based compensation expense of $3.0 million and $3.1 million in the thirteen weeks ended February 25, 2023 and February 26, 2022, respectively, and $6.3 million and $5.7 million in the twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively.

Stock Options

The following table summarizes stock option activity for the twenty-six weeks ended February 25, 2023:

	Shares underlying options		Weighted average exercise price	Weighted average remaining contractual life (years)
Outstanding as of August 27, 2022	2,776,551	$	18.04	6.10
Granted	135,001		38.61	
Exercised	(326,561)		14.67	
Forfeited	(20,009)		31.33	
Outstanding as of February 25, 2023	2,564,982	$	19.45	5.86
Vested and expected to vest as of February 25, 2023	2,564,982	$	19.45	5.86
Exercisable as of February 25, 2023	2,054,267	$	15.62	5.16

As of February 25, 2023, the Company had $5.0 million of total unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 1.7 years. During the twenty-six weeks ended February 25, 2023 and February 26, 2022, the Company received $4.8 million and $1.5 million in cash from stock option exercises, respectively.

Restricted Stock Units

The following table summarizes restricted stock unit activity for the twenty-six weeks ended February 25, 2023:

	Units		Weighted average grant-date fair value
Non-vested as of August 27, 2022	453,003	$	30.68
Granted	264,992		37.16
Vested	(175,301)		27.23
Forfeited	(44,662)		33.66
Non-vested as of February 25, 2023	498,032	$	35.08

As of February 25, 2023, the Company had $13.3 million of total unrecognized compensation cost related to restricted stock units that will be recognized over a weighted average period of 1.7 years.

Performance Stock Units

During the twenty-six weeks ended February 25, 2023, the Company granted performance stock units under its equity compensation plan. Performance stock units vest in a range between 0% and 200% based upon certain performance criteria in a three-year period. Performance stock units were valued using a Monte Carlo simulation.

The following table summarizes performance stock unit activity for the twenty-six weeks ended February 25, 2023:

	Units		Weighted average grant-date fair value
Non-vested as of August 27, 2022	255,023	$	32.82
Granted	50,629		62.55
Vested	(72,452)		27.39
Forfeited	(37,241)		31.00
Non-vested as of February 25, 2023	195,959	$	42.85

As of February 25, 2023, the Company had $5.0 million of total unrecognized compensation cost related to performance stock units that will be recognized over a weighted average period of 1.5 years.

Stock Appreciation Rights

Stock appreciation rights ("SARs") permit the holder to participate in the appreciation of the Company's common stock price and are awarded to non-employee consultants of the Company. The Company's SARs settle in shares of its common stock once the applicable vesting criteria have been met. The SARs outstanding as of February 25, 2023 cliff vest two years from the date of grant and must be exercised within five years.

The following table summarizes SARs activity for the twenty-six weeks ended February 25, 2023:

	Shares underlying SARs	Weighted average exercise price
Outstanding as of August 27, 2022	150,000	$ 24.20
Granted	150,000	37.67
Exercised	(150,000)	24.20
Forfeited	—	—
Outstanding as of February 25, 2023	150,000	$ 37.67

The SARs exercised in the twenty-six weeks ended February 25, 2023 resulted in a net issuance of 38,850 shares of the Company's common stock. The SARs granted in the twenty-six weeks ended February 25, 2023 are liability-classified; therefore the related stock-based compensation expense is based on the vesting provisions and the fair value of the awards.

13. Restructuring and Related Charges

In May 2020, the Company announced certain restructuring activities in conjunction with the implementation of the Company's future-state organization design, which created a fully integrated organization with its completed acquisition of Quest Nutrition, LLC on November 7, 2019. The new organization design became effective on August 31, 2020. These restructuring plans primarily included workforce reductions, changes in management structure, and the relocation of business activities from one location to another.

The Company substantially completed its restructuring activities during the third quarter of fiscal 2022; therefore no restructuring or restructuring-related costs were incurred in the thirteen and twenty-six weeks ended February 25, 2023. In the thirteen and twenty-six weeks ended February 26, 2022, the Company incurred $0.1 million of restructuring and restructuring-related costs. Since the announcement of the restructuring activities in May 2020, the Company incurred aggregate restructuring and restructuring-related costs of $9.9 million.

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. These statements include, but are not limited to, our expectations regarding our supply chain, including but not limited to, raw materials and logistics costs, the effect of price increases, inflationary pressure on us and our contract manufacturers, and the unforeseen business disruptions or other effects due to current global geopolitical tensions, including relating to Ukraine. 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, except as required by applicable law. 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 27, 2022 ("Annual Report") and our unaudited consolidated financial statements and the related notes appearing elsewhere in this Report. In addition to historical information, the following discussion contains forward-looking statements, including, but not limited to, 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 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

The Simply Good Foods Company is a consumer packaged food and beverage company that aims to lead the nutritious snacking movement with trusted brands that offer a variety of convenient, innovative, great-tasting, better-for-you snacks and meal replacements, and other product offerings. The product portfolio we develop, market and sell consists primarily of protein bars, ready-to-drink ("RTD") shakes, sweet and salty snacks and confectionery products marketed under the Atkins®, Atkins Endulge®, Quest® and Quest Hero™ brand names. We believe Simply Good Foods is poised to expand its wellness platform through innovation and organic growth along with acquisition opportunities in the nutritional snacking space.

Our nutritious snacking platform consists of brands that specialize in providing products for consumers that follow certain nutritional philosophies and health-and-wellness trends: Atkins® for those following a low-carb lifestyle and Quest® for consumers seeking a variety of protein-rich foods and beverages that also limit sugars and simple carbs. We distribute our products in major retail channels, primarily in North America, including grocery, club, and mass merchandise, as well as through e-commerce, convenience, specialty, and other channels. Our portfolio of nutritious snacking brands gives us a strong platform with which to introduce new products, expand distribution, and attract new consumers to our products.

Business Trends

We continue to actively monitor the effect of the dynamic macroeconomic inflationary environment in the United States and elsewhere, elevated levels of supply chain costs, and the level of consumer mobility, which includes the rate at which consumers return to working outside the home. Current or future governmental policies may increase the risk of inflation and possible economic recession, which could further increase the costs of ingredients, packaging and finished goods for our business as well as negatively effect consumer behavior and demand for our products. Additionally, management is continuing to monitor the conflict in Ukraine, especially regarding the availability and cost of raw materials that are produced in this region and Europe in general. Management is also monitoring for signs of any expansion of economic or supply chain disruptions or broader supply chain inflationary costs resulting either directly or indirectly from the crisis in Eastern Europe.

During the thirteen and twenty-six weeks ended February 25, 2023, our business performance was affected by the corresponding unfavorable effects of higher raw material costs, higher co-manufacturing costs, and supply chain challenges, including supply chain disruptions resulting from labor shortages and disruptions in ingredients, and we expect on balance that these inflationary cost pressures and supply chain challenges to continue for the remainder of fiscal year 2023.

We continue to proactively engage with our retail customers, contract manufacturers, and logistics and transportation providers, to meet demand for our products and to remain informed of any challenges within our business operations. Additionally, we instituted price increases effective in the first and fourth quarters of fiscal year 2022. Management believes these price increases and additional cost savings initiatives will partially offset the unfavorable effects of the supply chain cost pressures discussed above.

The ultimate effect the supply chain challenges, cost pressures, current high inflation environment, and the possible economic recession discussed above could have on consumer purchasing patterns and on our business continue to be not fully known.

Based on information available to us as of the date of this Report, we believe we will be able to deliver products at acceptable levels to fulfill customer orders on a timely basis; therefore, we expect our products will continue to be available for purchase to meet consumer meal replacement and snacking needs for the foreseeable future. We continue to monitor customer and consumer demand along with our supply chain and logistics capabilities and intend to adapt our plans as needed to continue to drive our business and meet our obligations.

Key Financial Definitions

Net sales. Net sales consist primarily of product sales less the cost of promotional activities, slotting fees and other sales credits and adjustments, including product returns.

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, shipping and handling, warehousing, depreciation of warehouse equipment, 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 and marketing, general and administrative, and depreciation and amortization expense. The following is a brief description of the components of operating expenses:

- *Selling and marketing.* Selling and marketing expenses comprise broker commissions, customer marketing, media and other marketing costs.
- *General and administrative.* General and administrative expenses comprise expenses associated with corporate and administrative functions that support our business, including employee compensation, stock-based compensation, professional services, integration costs, restructuring costs, insurance and other general corporate expenses.
- *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.

Results of Operations

During the thirteen weeks ended February 25, 2023, our net sales were relatively flat at $296.6 million compared to $296.7 million for the thirteen weeks ended February 26, 2022. The positive effects of the price increase effective in the fourth quarter of fiscal year 2022, which drove a 0.3% increase in our North America net sales, were offset by a 10.8% decline in our international net sales and a 1.3% headwind to net sales growth related to our shift from direct sales to licensing the Quest® frozen pizza business in the third quarter of fiscal year 2022. Unfavorable effects of higher raw material, packaging, and co-manufacturing costs and supply chain challenges in the thirteen weeks ended February 25, 2023 resulted in decreased gross profit and gross profit margin as compared to the thirteen weeks ended February 26, 2022. As previously discussed above in "Business Trends," we expect these inflationary cost pressures and supply chain challenges to continue for the remainder of fiscal year 2023.

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 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 EBITDA and 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 February 25, 2023 and the Thirteen Weeks Ended February 26, 2022

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

(In thousands)	Thirteen Weeks Ended February 25, 2023	% of Net Sales	Thirteen Weeks Ended February 26, 2022	% of Net Sales
Net sales	$ 296,584	100.0 %	$ 296,718	100.0 %
Cost of goods sold	193,852	65.4 %	188,195	63.4 %
Gross profit	102,732	34.6 %	108,523	36.6 %
Operating expenses:				
Selling and marketing	29,948	10.1 %	31,955	10.8 %
General and administrative	25,934	8.7 %	26,288	8.9 %
Depreciation and amortization	4,345	1.5 %	4,329	1.5 %
Total operating expenses	60,227	20.3 %	62,572	21.1 %
Income from operations	42,505	14.3 %	45,951	15.5 %
Other income (expense):				
Interest income	246	0.1 %	—	— %
Interest expense	(8,497)	(2.9)%	(5,276)	(1.8)%
Loss in fair value change of warrant liability	—	— %	(12,745)	(4.3)%
(Loss) gain on foreign currency transactions	(214)	(0.1)%	780	0.3 %
Total other expense	(8,465)	(2.9)%	(17,241)	(5.8)%
Income before income taxes	34,040	11.5 %	28,710	9.7 %
Income tax expense	8,398	2.8 %	10,249	3.5 %
Net income	$ 25,642	8.6 %	$ 18,461	6.2 %
Other financial data:				
Adjusted EBITDA [(1)]	$ 50,900	17.2 %	$ 54,180	18.3 %

[(1)] Adjusted EBITDA is a non-GAAP financial metric. See “Reconciliation of EBITDA and Adjusted EBITDA” below for a reconciliation of net income to EBITDA and Adjusted EBITDA for each applicable period.

Net sales. Net sales were relatively flat at $296.6 million for the thirteen weeks ended February 25, 2023 compared to $296.7 million for the thirteen weeks ended February 26, 2022, representing a slight decrease of $0.1 million. The slight decrease was primarily attributable to the 10.8% decline in our international business and the 1.3% headwind to net sales growth related to our shift from direct sales to licensing the Quest® frozen pizza business in the third quarter of fiscal year 2022. These decreases were largely offset by the effects of the price increase effective in the fourth quarter of fiscal year 2022, which drove the 0.3% increase in our North America net sales in the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022.

Cost of goods sold. Cost of goods sold increased $5.7 million, or 3.0%, for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022. The cost of goods sold increase was primarily driven by higher raw material, packaging, and co-manufacturing costs and supply chain challenges in the thirteen weeks ended February 25, 2023. As previously discussed above in “Business Trends,” we expect these inflationary cost pressures and supply chain challenges to continue for the remainder of fiscal year 2023.

Gross profit. Gross profit decreased $5.8 million, or 5.3%, for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022. Additionally, gross profit of $102.7 million, or 34.6% of net sales, for the thirteen weeks ended February 25, 2023 decreased 200 basis points from 36.6% of net sales for the thirteen weeks ended February 26, 2022. The decreases in gross profit and gross profit margin were primarily driven by the unfavorable effects of higher raw material, packaging, and co-manufacturing costs and supply chain challenges in the thirteen weeks ended February 25, 2023 as previously discussed. These decreases were partially offset by the favorable effects of the price increase which became effective in the fourth quarter of fiscal year 2022.

Operating expenses. Operating expenses decreased $2.3 million, or 3.7%, for the thirteen weeks ended February 25, 2023 and February 26, 2022 due to the following:

- *Selling and marketing.* Selling and marketing expenses decreased $2.0 million, or 6.3%, for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022, primarily related to the timing of marketing spend.
- *General and administrative.* General and administrative expenses decreased $0.4 million, or 1.3%, for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022. The decrease in general and administrative expenses was primarily attributable to a reduction in employee-related expenses and the discontinuation of costs related to business integration activities and restructuring charges in the thirteen weeks ended February 25, 2023 compared to costs totaling $0.3 million in the thirteen weeks ended February 26, 2022. These decreases were partially offset by the $0.4 million of executive officer transition costs incurred in the thirteen weeks ended February 25, 2023.
- *Depreciation and amortization.* Depreciation and amortization expenses were $4.3 million for the thirteen weeks ended February 25, 2023 and February 26, 2022.

Interest expense. Interest expense increased $3.2 million for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022, primarily due to the increase in interest rates on our Term Facility (as defined below) to 8.0% as of February 25, 2023 from 3.8% as of February 26, 2022. The increase was partially offset by the effect of principal payments reducing the outstanding balance of the Term Facility to $365.0 million as of February 25, 2023 from $431.5 million as of February 26, 2022. Additionally, interest expense related to the amortization of deferred financing costs and debt discount increased $0.2 million for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022.

Loss in fair value change of warrant liability. There were no outstanding liability-classified Private Warrants during the thirteen weeks ended February 25, 2023. During thirteen weeks ended February 26, 2022, we recorded a non-cash loss of $12.7 million related to changes in valuation of our liability-classified warrants issued through a private placement (“Private Warrants”), which was primarily driven by movements in our stock price. On January 7, 2022, the Private Warrants were exercised on a cashless basis, resulting in a net issuance of 4,830,761 shares of common stock.

(Loss) gain on foreign currency transactions. Foreign currency transactions resulted in a loss of $0.2 million and a gain of $0.8 million for the thirteen weeks ended February 25, 2023 and February 26, 2022, respectively. During the thirteen weeks ended February 26, 2022, we recognized a foreign currency translation gain of $1.1 million related to the liquidation of a foreign subsidiary. The remaining variance is attributable to changes in foreign currency rates related to our international operations.

Income tax expense. Income tax expense decreased $1.9 million for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022. The decrease in our income tax expense was primarily driven by lower income from operations and changes in permanent differences.

Net income. Net income was $25.6 million for the thirteen weeks ended February 25, 2023, an increase of $7.2 million compared to net income of $18.5 million for the thirteen weeks ended February 26, 2022. The increase was primarily driven by the $12.7 million non-cash fair value loss incurred in the thirteen weeks ended February 26, 2022 related to the measurement of our liability-classified Private Warrants. The increase in net income was partially offset by a $3.4 million decrease in income from operations, driven by the unfavorable effects of higher raw material and co-manufacturing costs and supply chain challenges, and the $3.2 million increase in interest expense in the thirteen weeks ended February 25, 2023 as discussed above.

Adjusted EBITDA. Adjusted EBITDA decreased $3.3 million, or 6.1% for the thirteen weeks ended February 25, 2023 compared to the thirteen weeks ended February 26, 2022, driven primarily by the $3.4 million decrease in income from operations as a result of the unfavorable effects of higher raw material and co-manufacturing costs and supply chain challenges in the thirteen weeks ended February 25, 2023 as discussed above. For a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, see “Reconciliation of EBITDA and Adjusted EBITDA” below.

Comparison of Unaudited Results for the Twenty-Six Weeks Ended February 25, 2023 and the Twenty-Six Weeks Ended February 26, 2022

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

(In thousands)	Twenty-Six Weeks Ended February 25, 2023	% of Net Sales	Twenty-Six Weeks Ended February 26, 2022	% of Net Sales
Net sales	$ 597,462	100.0 %	$ 577,983	100.0 %
Cost of goods sold	383,738	64.2 %	352,905	61.1 %
Gross profit	213,724	35.8 %	225,078	38.9 %
Operating expenses:				
Selling and marketing	58,482	9.8 %	62,482	10.8 %
General and administrative	51,575	8.6 %	49,990	8.6 %
Depreciation and amortization	8,672	1.5 %	8,649	1.5 %
Total operating expenses	118,729	19.9 %	121,121	21.0 %
Income from operations	94,995	15.9 %	103,957	18.0 %
Other income (expense):				
Interest income	253	— %	1	— %
Interest expense	(15,552)	(2.6)%	(11,647)	(2.0)%
Loss in fair value change of warrant liability	—	— %	(30,062)	(5.2)%
(Loss) gain on foreign currency transactions	(106)	— %	427	0.1 %
Other income	6	— %	9	— %
Total other expense	(15,399)	(2.6)%	(41,272)	(7.1)%
Income before income taxes	79,596	13.3 %	62,685	10.8 %
Income tax expense	18,094	3.0 %	23,072	4.0 %
Net income	$ 61,502	10.3 %	$ 39,613	6.9 %
Other financial data:				
Adjusted EBITDA [(1)]	$ 111,666	18.7 %	$ 119,795	20.7 %

[(1)] Adjusted EBITDA is a non-GAAP financial metric. See “Reconciliation of EBITDA and Adjusted EBITDA” below for a reconciliation of net income to EBITDA and Adjusted EBITDA for each applicable period.

Net sales. Net sales of $597.5 million represented an increase of $19.5 million, or 3.4%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. The increase was primarily attributable to the price increase effective in the fourth quarter of fiscal year 2022, which drove the 3.9% increase in our North America net sales in the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. The increase in North America net sales was partially offset by a 13.8% decline in our international business and a 1.2% headwind to net sales growth related to our shift from direct sales to licensing the Quest® frozen pizza business in the third quarter of fiscal year 2022.

Cost of goods sold*.* Cost of goods sold increased $30.8 million, or 8.7%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. The cost of goods sold increase was primarily driven by higher raw material, packaging, and co-manufacturing costs and supply chain challenges in the twenty-six weeks ended February 25, 2023. As previously discussed above in “Business Trends,” we continue to expect these inflationary cost pressures and supply chain challenges to continue for the remainder of fiscal year 2023.

Gross profit. Gross profit decreased $11.4 million, or 5.0%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. Additionally, gross profit of $213.7 million, or 35.8% of net sales, for the twenty-six weeks ended February 25, 2023 decreased 310 basis points from 38.9% of net sales for the twenty-six weeks ended February 26, 2022. The decreases in gross profit and gross profit margin were primarily driven by the unfavorable effects of higher raw material, packaging, and co-manufacturing costs and supply chain challenges in the twenty-six weeks ended February 25, 2023 as previously discussed. These decreases were partially offset by the favorable effects of the price increase which became effective in the fourth quarter of fiscal year 2022.

Operating expenses. Operating expenses decreased $2.4 million, or 2.0%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022 due to the following:

- *Selling and marketing.* Selling and marketing expenses decreased $4.0 million, or 6.4%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022, primarily related to the timing of marketing spend.
- *General and administrative.* General and administrative expenses increased $1.6 million, or 3.2%, for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. The increase in general and administrative expense was primarily attributable to a $0.6 million increase in stock-based compensation, increased corporate expenses, and $0.4 million of executive officer transition costs incurred in the twenty-six weeks ended February 25, 2023. These increases were partially offset by a reduction in employee-related expenses and the discontinuation of costs related to business integration activities and restructuring charges in the twenty-six weeks ended February 25, 2023 compared to costs totaling $0.4 million in the twenty-six weeks ended February 26, 2022.
- *Depreciation and amortization.* Depreciation and amortization expenses were $8.7 million and $8.6 million for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022, respectively.

Interest expense. Interest expense increased $3.9 million for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022, primarily due to the increase in interest rates on our Term Facility (as defined below) to 8.0% as of February 25, 2023 from 3.8% as of February 26, 2022. Interest expense related to the amortization of deferred financing costs and debt discount decreased $0.1 million for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022.

Loss in fair value change of warrant liability. There were no outstanding liability-classified Private Warrants during the twenty-six weeks ended February 25, 2023. During the twenty-six weeks ended February 26, 2022, we recorded a non-cash loss of $30.1 million related to changes in valuation of our Private Warrants, which was primarily driven by movements in our stock price. On January 7, 2022, the Private Warrants were exercised on a cashless basis, resulting in a net issuance of 4,830,761 shares of common stock.

(Loss) gain on foreign currency transactions. Foreign currency transactions resulted in a loss of $0.1 million and a gain of $0.4 million for the twenty-six weeks ended February 25, 2023 and February 26, 2022, respectively. During the twenty-six weeks ended February 26, 2022, we recognized a foreign currency translation gain of $1.1 million related to the liquidation of a foreign subsidiary. The remaining variance is attributable to changes in foreign currency rates related to our international operations.

Income tax expense. Income tax expense decreased $5.0 million for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022. The decrease in our income tax expense is primarily driven by lower income from operations and changes in permanent differences.

Net income. Net income was $61.5 million for the twenty-six weeks ended February 25, 2023, an increase of $21.9 million compared to net income of $39.6 million for the twenty-six weeks ended February 26, 2022. The increase was primarily driven by the $30.1 million non-cash fair value loss incurred in the twenty-six weeks ended February 26, 2022 related to the measurement of our liability-classified Private Warrants. The increase in net income was partially offset by a $9.0 million decrease in income from operations, driven by the unfavorable effects of higher raw material and co-manufacturing costs and supply chain challenges in the twenty-six weeks ended February 25, 2023 as discussed above.

Adjusted EBITDA. Adjusted EBITDA decreased $8.1 million, or 6.8% for the twenty-six weeks ended February 25, 2023 compared to the twenty-six weeks ended February 26, 2022, driven primarily by the $9.0 million decrease in income from operations as a result of the unfavorable effects of higher raw material and co-manufacturing costs and supply chain challenges in the twenty-six weeks ended February 25, 2023 as discussed above. For a reconciliation of Adjusted EBITDA to its most directly comparable GAAP measure, see “Reconciliation of EBITDA and Adjusted EBITDA” below.

Reconciliation of EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-GAAP financial measures commonly used in our industry and should not be construed as alternatives to net income as an indicator of operating performance or as alternatives to cash flow provided by operating activities as a measure of liquidity (each as determined in accordance with GAAP). The Company defines EBITDA as net income or loss before interest income, interest expense, income tax expense, depreciation and amortization, and Adjusted EBITDA as further adjusted to exclude the following items: stock-based compensation expense, executive transition costs, integration costs, restructuring costs, loss in fair value change of warrant liability, and other non-core expenses. The Company believes that EBITDA and Adjusted EBITDA, when used in conjunction with net income, are useful to provide additional information to investors. Management of the Company uses EBITDA and Adjusted EBITDA to supplement net income because these measures reflect operating results of the on-going operations, eliminate items that are not directly attributable to the Company's underlying operating performance, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to the key metrics the Company's management uses in its financial and operational decision making. The Company also believes that EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in its industry. EBITDA and Adjusted EBITDA may not be comparable to other similarly titled captions of other companies due to differences in the non-GAAP calculation.

The following unaudited table provides a reconciliation of EBITDA and Adjusted EBITDA to its most directly comparable GAAP measure, which is net income, for the thirteen and twenty-six weeks ended February 25, 2023 and February 26, 2022:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(In thousands)	February 25, 2023	February 26, 2022	February 25, 2023	February 26, 2022
Net income	$ 25,642	$ 18,461	$ 61,502	$ 39,613
Interest income	(246)	—	(253)	(1)
Interest expense	8,497	5,276	15,552	11,647
Income tax expense	8,398	10,249	18,094	23,072
Depreciation and amortization	4,952	4,831	9,904	9,572
EBITDA	47,243	38,817	104,799	83,903
Stock-based compensation expense	3,019	3,092	6,332	5,697
Executive transition costs	421	—	421	—
Integration of Quest	—	238	—	293
Restructuring	—	56	—	98
Loss in fair value change of warrant liability	—	12,745	—	30,062
Other [1]	217	(768)	114	(258)
Adjusted EBITDA	$ 50,900	$ 54,180	$ 111,666	$ 119,795

[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 Agreement (as defined below). Our principal uses of cash have been working capital, debt service, repurchases of our common stock, and acquisition opportunities.

We had $63.2 million in cash as of February 25, 2023. 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 for at least the next twelve months. As circumstances warrant, we may issue debt and/or equity securities from time to time on an opportunistic basis, dependent upon market conditions and available pricing. We make no assurance that we can issue and sell such securities on acceptable terms or at all.

Our material future cash requirements from contractual and other obligations relate primarily to our principal and interest payments for our Term Facility, as defined and discussed below, and our operating and finance leases. Refer to Note 5, Long-Term Debt and Line of Credit, and Note 8, Leases, of the Notes to Unaudited Consolidated Financial Statements in this Report for additional information related to the expected timing and amount of payments related to our contractual and other obligations.

Debt and Credit Facilities

On July 7, 2017, we (through certain of our subsidiaries) entered into a credit agreement with Barclays Bank PLC and other parties (as amended to date, the “Credit Agreement”). The Credit Agreement at that time provided 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 which formed the Company between Conyers Park Acquisition Corp. and NCP-ATK Holdings, Inc. on July 7, 2017, the full $200.0 million of the Term Facility (the “Term Loan”) was drawn.

On November 7, 2019, we entered into a second amendment (the “Incremental Facility Amendment”) to the Credit Agreement to increase the principal borrowed on the Term Facility by $460.0 million. The Term Facility together with the incremental borrowing make up the Initial Term Loans (as defined in the Incremental Facility Amendment). The Incremental Facility Amendment was executed to partially finance the acquisition of Quest Nutrition, LLC on November 7, 2019. No amounts under the Term Facility were repaid as a result of the execution of the Incremental Facility Amendment.

Effective as of December 16, 2021, we entered into a third amendment (the “Extension Amendment”) to the Credit Agreement. The Extension Amendment provided for an extension of the stated maturity date of the Revolving Commitments and Revolving Loans (each as defined in the Credit Agreement) from July 7, 2022 to the earlier of (i) 91 days prior to the then-effective maturity date of the Initial Term Loans and (ii) December 16, 2026.

On January 21, 2022, we entered into a repricing amendment (the “2022 Repricing Amendment”) to the Credit Agreement. The 2022 Repricing Amendment, among other things, (i) reduced the interest rate per annum applicable to the Initial Term Loans outstanding under the Credit Agreement immediately prior to the effective date of the 2022 Repricing Amendment, (ii) reset the prepayment premium for the existing Initial Term Loans to apply to Repricing Transactions (as defined in the Credit Agreement) that occur within six months after the effective date of the 2022 Repricing Amendment, and (iii) implemented the Secured Overnight Financing Rate (“SOFR”) and related replacement provisions for the London Interbank Offered Rate (“LIBOR”).

Effective as of the 2022 Repricing Amendment dated January 21, 2022, 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%, or (c) the Adjusted Term SOFR Rate (as defined in the Credit Agreement) applicable for an interest period of one month plus 1.00% plus (x) 2.25% margin for the Term Loan or (y) 2.00% margin for the Revolving Credit Facility; or

ii. SOFR plus a credit spread adjustment equal to 0.10% for one-month SOFR, 0.15% for up to three-month SOFR and 0.25% for up to six-month SOFR, subject to a floor of 0.50%, plus (x) 3.25% margin for the Term Loan or (y) 3.00% margin for the Revolving Credit Facility.

The Simply Good Foods Company is not a borrower under the Credit Agreement and has not provided a guarantee of the Credit Agreement. Simply Good Foods USA, Inc., is the administrative borrower and certain other subsidiary holding companies are co-borrowers under the Credit Agreement. Each of our domestic subsidiaries that is not a named borrower under the Credit Agreement has provided a guarantee on a secured basis. As security for the payment or performance of the debt under the Credit Agreement, the borrowers and the guarantors have pledged certain equity interests in their respective subsidiaries and granted the lenders a security interest in substantially all of their domestic assets. All guarantors other than Quest Nutrition, LLC are holding companies with no assets other than their investments in their respective subsidiaries.

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 6.00:1.00 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 facilities may result in an event of default. We were in compliance with all covenants as of February 25, 2023 and August 27, 2022, respectively.

At February 25, 2023, the outstanding balance of the Term Facility was $365.0 million. We are not required to make principal payments on the Term Facility over the twelve months following the period ended February 25, 2023. The outstanding balance of the Term Facility is due upon its maturity in July 2024. As of February 25, 2023, there were no amounts drawn against the Revolving Credit Facility.

Stock Repurchase Program

On October 21, 2022, we announced that our Board of Directors had approved the addition of $50.0 million to our stock repurchase program, resulting in authorized stock repurchases of up to an aggregate of $150.0 million. During the twenty-six weeks ended February 25, 2023, we repurchased 546,346 shares of common stock for $16.4 million, averaging a purchase price per share of $30.11. We did not repurchase any shares of common stock during the thirteen weeks ended February 25, 2023. During the thirteen and twenty-six weeks ended February 26, 2022, we repurchased 571,271 shares of common stock for $20.4 million, averaging a purchase price per share of $35.68.

As of February 25, 2023, approximately $71.5 million remained available for repurchases under our $150.0 million stock repurchase program. Refer to Note 10, Stockholders' Equity, of the Notes to Unaudited Consolidated Financial Statements in this Report for additional information related to our stock repurchase program.

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 25, 2023	February 26, 2022
Net cash provided by operating activities	$ 53,346	$ 30,323
Net cash used in investing activities	$ (1,933)	$ (6,026)
Net cash used in financing activities	$ (55,709)	$ (47,910)

Operating activities. Our net cash provided by operating activities increased $23.0 million to $53.3 million for the twenty-six weeks ended February 25, 2023 compared to $30.3 million for the twenty-six weeks ended February 26, 2022. The increase in cash provided by operating activities was primarily attributable to the $17.4 million decrease in cash paid for taxes and changes in working capital for the twenty-six weeks ended February 25, 2023 as compared to the twenty-six weeks ended February 26, 2022. Changes in working capital, comprised of changes in accounts receivable, net, inventories, prepaid expenses, accounts payable, and accrued expenses and other current liabilities, which are driven by the timing of payments and receipts and seasonal building of inventory, consumed cash of $28.9 million in the twenty-six weeks ended February 25, 2023 compared to $38.8 million of cash consumed in the twenty-six weeks ended February 26, 2022. These increases in cash provided by operating activities were partially offset by the $9.0 million decrease in income from operations to $95.0 million for the twenty-six weeks ended February 25, 2023 as compared to $104.0 million for the twenty-six weeks ended February 26, 2022, primarily driven by the unfavorable effects of higher raw material and co-manufacturing costs and supply chain challenges as discussed in "Results of Operations" above. Additionally, cash paid for interest was $14.3 million in the twenty-six weeks ended February 25, 2023, which was an increase of $4.1 million as compared to the $10.2 million paid for interest in the twenty-six weeks ended February 26, 2022.

Investing activities. Our net cash used in investing activities was $1.9 million for the twenty-six weeks ended February 25, 2023 compared to $6.0 million for the twenty-six weeks ended February 26, 2022. Our net cash used in investing activities for the twenty-six weeks ended February 25, 2023 primarily comprised $1.7 million of purchases of property and equipment. The $6.0 million of net cash used in investing activities for the twenty-six weeks ended February 26, 2022 primarily comprised $4.3 million of purchases of property and equipment and the issuance of a $1.5 million note receivable.

Financing activities. Our net cash used in financing activities was $55.7 million for the twenty-six weeks ended February 25, 2023 compared to $47.9 million for the twenty-six weeks ended February 26, 2022. Net cash used in financing activities for the twenty-six weeks ended February 25, 2023 primarily consisted of $16.4 million of repurchases in common stock, $41.5 million in principal payments on the Term Facility, and $2.4 million in tax payments related to issuance of restricted stock units and performance stock units, partially offset by $4.8 million of cash proceeds received from option exercises. Net cash used in financing activities for the twenty-six weeks ended February 26, 2022 primarily consisted of $20.4 million in repurchases of common stock, $25.0 million in principal payments on the Term Facility, and $3.3 million in tax payments related to issuance of restricted stock units and performance stock units, partially offset by $1.5 million of cash proceeds received from option exercises.

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. Refer to Note 2, Summary of Significant Accounting Policies, of our unaudited interim consolidated financial statements in this Report for further information regarding recently issued accounting standards.

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 25, 2023. We continue to expect to experience logistics challenges in our supply chain as well as on balance higher raw material, packaging, and co-manufacturing costs and supply chain challenges in fiscal year 2023. In addition, current or future governmental policies may increase the risk of inflation and possible economic recession, which could further increase the costs of ingredients, packaging and finished goods for our business as well as negatively effect consumer behavior and demand for our products. As a result, we instituted price increases effective in the first and fourth quarters of fiscal year 2022. However, there can be no assurance that the price increases will fully offset the effects of higher raw material and supply and distribution costs on our results of operations and financial condition. 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 ensure 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 (pursuant to Rule 13a-15(b) under the Exchange Act) 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 25, 2023, the Company's disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended February 25, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls 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 may also 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
3.1	Third Amended and Restated Certificate of Incorporation of The Simply Good Foods Company (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on January 25, 2023).
10.1†	Offer Letter, dated January 27, 2023, between The Simply Good Foods Company and Geoff Tanner (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 30, 2023).
10.2†	Transition Agreement, dated January 27, 2023, by and between The Simply Good Foods Company and Joseph E. Scalzo (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on January 30, 2023).
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 (the instance document does not appear on the Interactive Data File because the XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensatory plan.

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: April 5, 2023	Name:	Timothy A. Matthews
	Title:	Vice President, Controller, and Chief Accounting Officer
		(Duly Authorized Officer and 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: April 5, 2023	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, Shaun Mara, 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 5, 2023	By:	/s/ Shaun Mara
	Name:	Shaun Mara
	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 February 25, 2023 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 5, 2023	By:	/s/ Joseph E. Scalzo
	Name:	Joseph E. Scalzo
	Title:	Chief Executive Officer, President and Director
		(Principal Executive Officer)

Date: April 5, 2023	By:	/s/ Shaun Mara
	Name:	Shaun Mara
	Title:	Chief Financial Officer
		(Principal Financial Officer)