

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 May 29, 2021

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

(State or other jurisdiction of incorporation or organization)

82-1038121

(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 Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 2, 2021, there were 95,780,011 shares of common stock, par value \$0.01 per share, issued and outstanding.

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**THE SIMPLY GOOD FOODS COMPANY AND SUBSIDIARIES**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED MAY 29, 2021**

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**PART I. Financial Information**

**Item 1. Financial Statements (Unaudited)**

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

	May 29, 2021	August 29, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 90,173	\$ 95,847
Accounts receivable, net	118,373	89,740
Inventories	78,579	59,085
Prepaid expenses	4,895	3,644
Other current assets	17,601	11,947
Total current assets	309,621	260,263
Long-term assets:		
Property and equipment, net	13,377	11,850
Intangible assets, net	1,142,199	1,158,768
Goodwill	543,134	544,774
Other long-term assets	30,792	32,790
Total assets	<u>\$ 2,039,123</u>	<u>\$ 2,008,445</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 46,788	\$ 32,240
Accrued interest	334	960
Accrued expenses and other current liabilities	50,556	38,007
Current maturities of long-term debt	282	271
Total current liabilities	97,960	71,478
Long-term liabilities:		
Long-term debt, less current maturities	500,154	596,879
Deferred income taxes	98,100	84,352
Warrant liability	154,352	93,638
Other long-term liabilities	20,151	22,765
Total liabilities	870,717	869,112
See commitments and contingencies (Note 10)		
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, 95,875,778 and 95,751,845 shares issued at May 29, 2021 and August 29, 2020, respectively	959	958
Treasury stock, 98,234 shares at cost at May 29, 2021 and August 29, 2020	(2,145)	(2,145)
Additional paid-in-capital	1,082,617	1,076,472
Retained earnings	87,561	64,927
Accumulated other comprehensive loss	(586)	(879)
Total stockholders' equity	1,168,406	1,139,333
Total liabilities and stockholders' equity	<u>\$ 2,039,123</u>	<u>\$ 2,008,445</u>

*See accompanying notes to the unaudited condensed consolidated financial statements.*

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
Net sales	\$ 284,001	\$ 215,101	\$ 745,760	\$ 594,355
Cost of goods sold	162,998	126,475	440,451	358,129
Gross profit	121,003	88,626	305,309	236,226
<b>Operating expenses:</b>				
Selling and marketing	30,826	24,510	82,171	69,985
General and administrative	25,668	28,713	77,645	74,961
Depreciation and amortization	4,187	4,248	12,643	10,988
Business transaction costs	—	47	—	26,900
Total operating expenses	60,681	57,518	172,459	182,834
Income from operations	60,322	31,108	132,850	53,392
<b>Other income (expense):</b>				
Interest income	1	29	4	1,493
Interest expense	(7,985)	(8,324)	(24,352)	(23,882)
(Loss) gain in fair value change of warrant liability	(35,833)	31,703	(60,714)	82,655
Gain on legal settlement	5,000	—	5,000	—
(Loss) gain on foreign currency transactions	(272)	(418)	712	(596)
Other income	70	59	229	104
Total other (expense) income	(39,019)	23,049	(79,121)	59,774
Income before income taxes	21,303	54,157	53,729	113,166
Income tax expense	15,408	6,045	31,095	8,238
Net income	\$ 5,895	\$ 48,112	\$ 22,634	\$ 104,928
<b>Other comprehensive income:</b>				
Foreign currency translation adjustments	\$ 95	\$ 61	\$ 293	\$ (80)
Comprehensive income	\$ 5,990	\$ 48,173	\$ 22,927	\$ 104,848
<b>Earnings per share from net income:</b>				
Basic	\$ 0.06	\$ 0.50	\$ 0.24	\$ 1.12
Diluted	\$ 0.06	\$ 0.17	\$ 0.23	\$ 0.23
<b>Weighted average shares outstanding:</b>				
Basic	95,767,629	95,378,495	95,730,581	93,475,539
Diluted	97,589,656	98,322,316	97,197,180	97,933,550

*See accompanying notes to the unaudited condensed consolidated financial statements.*

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

	Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020
<b>Operating activities</b>		
Net income	\$ 22,634	\$ 104,928
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,508	11,607
Amortization of deferred financing costs and debt discount	3,449	2,312
Stock compensation expense	5,766	5,945
Loss (gain) in fair value change of warrant liability	60,714	(82,655)
Unrealized (gain) loss on foreign currency transactions	(712)	596
Deferred income taxes	13,670	8,055
Amortization of operating lease right-of-use asset	3,385	2,702
Loss on operating lease right-of-use asset impairment	686	—
Gain on lease termination	(156)	—
Other	769	229
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(28,737)	6,407
Inventories	(20,318)	(2,636)
Prepaid expenses	(1,189)	(351)
Other current assets	(5,376)	(7,865)
Accounts payable	13,380	(11,561)
Accrued interest	(626)	(406)
Accrued expenses and other current liabilities	12,745	(10,496)
Other assets and liabilities	(2,104)	(2,711)
<b>Net cash provided by operating activities</b>	<b>91,488</b>	<b>24,100</b>
<b>Investing activities</b>		
Purchases of property and equipment	(3,232)	(766)
Issuance of note receivable	—	(1,250)
Acquisition of business, net of cash acquired	—	(982,084)
Proceeds from sale of business	5,800	—
Investments in intangible assets	(114)	(206)
<b>Net cash provided by (used in) investing activities</b>	<b>2,454</b>	<b>(984,306)</b>
<b>Financing activities</b>		
Proceeds from option exercises	700	931
Tax payments related to issuance of restricted stock units	(320)	(84)
Payments on finance lease obligations	(269)	(272)
Principal payments of long-term debt	(100,000)	(21,000)
Proceeds from issuance of common stock	—	352,542
Equity issuance costs	—	(3,323)
Proceeds from issuance of long-term debt	—	460,000
Proceeds from Revolving Credit Facility	—	25,000
Deferred financing costs	—	(8,208)
<b>Net cash (used in) provided by financing activities</b>	<b>(99,889)</b>	<b>805,586</b>
<b>Cash and cash equivalents</b>		
Net decrease in cash	(5,947)	(154,620)
Effect of exchange rate on cash	273	(587)
Cash at beginning of period	95,847	266,341
<b>Cash and cash equivalents at end of period</b>	<b>\$ 90,173</b>	<b>\$ 111,134</b>

	Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 21,529	\$ 21,976
Cash paid for taxes	\$ 15,282	\$ 4,647
Non-cash investing and financing transactions		
Non-cash proceeds from sale of business	\$ 3,000	\$ —
Operating lease right-of-use assets recognized at ASU 2016-02 transition	\$ —	\$ 5,102
Finance lease right-of-use assets recognized at ASU 2016-02 transition	\$ —	\$ 1,185
Operating lease right-of-use assets recognized after ASU 2016-02 transition	\$ 316	\$ 3,745
Non-cash additions to property and equipment	\$ 84	\$ 374

*See accompanying notes to the unaudited condensed consolidated financial statements.*

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 29, 2020	95,751,845	\$ 958	98,234	\$ (2,145)	\$ 1,076,472	\$ 64,927	\$ (879)	\$ 1,139,333
Net income	—	—	—	—	—	42,953	—	42,953
Stock-based compensation	—	—	—	—	1,110	—	—	1,110
Foreign currency translation adjustments	—	—	—	—	—	—	(45)	(45)
Shares issued upon vesting of restricted stock units	53,908	—	—	—	(201)	—	—	(201)
Exercise of options to purchase common stock	13,118	—	—	—	157	—	—	157
Balance at November 28, 2020	95,818,871	\$ 958	98,234	\$ (2,145)	\$ 1,077,538	\$ 107,880	\$ (924)	\$ 1,183,307
Net income	—	—	—	—	—	(26,214)	—	(26,214)
Stock-based compensation	—	—	—	—	2,484	—	—	2,484
Foreign currency translation adjustments	—	—	—	—	—	—	243	243
Shares issued upon vesting of restricted stock units	7,034	—	—	—	(51)	—	—	(51)
Exercise of options to purchase common stock	30,810	1	—	—	369	—	—	370
Balance at February 27, 2021	95,856,715	\$ 959	98,234	\$ (2,145)	\$ 1,080,340	\$ 81,666	\$ (681)	\$ 1,160,139
Net income	—	—	—	—	—	5,895	—	5,895
Stock-based compensation	—	—	—	—	2,172	—	—	2,172
Foreign currency translation adjustments	—	—	—	—	—	—	95	95
Shares issued upon vesting of restricted stock units	4,683	—	—	—	(68)	—	—	(68)
Exercise of options to purchase common stock	14,380	—	—	—	173	—	—	173
Balance at May 29, 2021	95,875,778	\$ 959	98,234	\$ (2,145)	\$ 1,082,617	\$ 87,561	\$ (586)	\$ 1,168,406



	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount	Shares	Amount				
Balance at August 31, 2019	81,973,284	\$ 820	98,234	\$ (2,145)	\$ 715,740	\$ (711)	\$ (836)	\$ 712,868
Net loss	—	—	—	—	—	8,515	—	8,515
Stock-based compensation	—	—	—	—	1,673	—	—	1,673
Public equity offering	13,379,205	134	—	—	349,085	—	—	349,219
Shares issued upon vesting of restricted stock units	46,911	—	—	—	(70)	—	—	(70)
Exercise of options to purchase common stock	17,372	—	—	—	208	—	—	208
Balance at November 30, 2019	95,416,772	\$ 954	98,234	\$ (2,145)	\$ 1,066,636	\$ 7,804	\$ (836)	\$ 1,072,413
Net income	—	—	—	—	—	48,301	—	48,301
Stock-based compensation	—	—	—	—	2,122	—	—	2,122
Foreign currency translation adjustments	—	—	—	—	—	—	(141)	(141)
Shares issued upon vesting of restricted stock units	771	—	—	—	(10)	—	—	(10)
Exercise of options to purchase common stock	58,994	1	—	—	723	—	—	724
Balance at February 29, 2020	95,476,537	\$ 955	98,234	\$ (2,145)	\$ 1,069,471	\$ 56,105	\$ (977)	\$ 1,123,409
Net income	—	—	—	—	—	48,112	—	48,112
Stock-based compensation	—	—	—	—	2,150	—	—	2,150
Foreign currency translation adjustments	—	—	—	—	—	—	61	61
Shares issued upon vesting of restricted stock units	323	—	—	—	(4)	—	—	(4)
Balance at May 30, 2020	95,476,860	\$ 955	98,234	\$ (2,145)	\$ 1,071,617	\$ 104,217	\$ (916)	\$ 1,173,728

See accompanying notes to the unaudited condensed consolidated financial statements.

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

## 1. Nature of Operations and Principles of Consolidation

### *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. The Company’s nutritious snacking platform consists of the following core brands that specialize in providing products for consumers that follow certain nutritional philosophies, dietary approaches and/or health-and-wellness trends: Atkins® for those following a low-carb lifestyle; and Quest® for consumers seeking to partner with a brand that makes the foods they crave work for them, not against them, through 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 Company’s platform also positions it to continue to selectively pursue acquisition opportunities of brands in the nutritious snacking category.

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

### *Unaudited Interim Condensed Consolidated Financial Statements*

The unaudited interim condensed 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 condensed consolidated financial statements and related notes of the Company and its subsidiaries are unaudited. The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”). The unaudited interim condensed 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 condensed 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 29, 2020, included in the Company’s Annual Report on Form 10-K/A (“Annual Report”) filed with the SEC on June 30, 2021.

The Company remains uncertain of the ultimate effect COVID-19 could have on its business notwithstanding the distribution of several U.S. government approved vaccines and the easing of movement restrictions. This uncertainty stems from the potential for, among other things, (i) the possibility for mutations of COVID-19 to result in increased rates of reported cases for which currently approved vaccines are not effective, (ii) unexpected supply chain disruptions, (iii) changes to customer operations, (iv) reversal in recently improving consumer purchasing and consumption behavior, and (v) the closure of customer establishments.

## 2. Summary of Significant Accounting Policies

### *Restatement of Previously Issued Financial Statements*

On April 12, 2021, the SEC issued a statement (the “SEC Statement”) on the accounting and reporting considerations for warrants issued by special purpose acquisition companies (“SPACs”). Following consideration of the guidance in the SEC Statement, the Company concluded that its private warrants (“Private Warrants”) should be classified as a liability and measured at fair value, with changes in fair value each period reported in earnings in accordance with Accounting Standards Codification 815-40, Derivatives and Hedging: Contracts in Entity’s Own Equity. On June 30, 2021, the Company filed restatements of its previously issued consolidated and condensed financial statements with the SEC on the Company’s Annual Report on Form 10-K/A for the fiscal year ended August 29, 2020, as well as the Company’s Quarterly Report on Form 10-Q/A as of and for the thirteen weeks ended November 28, 2020 and the Company’s Quarterly Report on Form 10-Q/A as of and for the thirteen and twenty-six weeks ended February 27, 2021.

Refer to Note 4, *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 December 2019, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which amends existing guidance related to the accounting for income taxes. This ASU is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles of accounting for income taxes and to improve the consistent application of GAAP for other areas of accounting for income taxes by clarifying and amending existing guidance. This ASU is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the effects adoption of this guidance will have on the consolidated financial statements and does not expect that the adoption of this ASU will be material to its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional guidance for a limited period of time to ease the potential burden in accounting for reference rate reform on financial reporting. The amendments in this ASU are effective for all entities and 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, 2022. The amendments of this ASU should be applied on a prospective basis. The Company will continue to monitor the effects of rate reform, if any, on its contracts and the effects of adoption of this ASU through December 31, 2022. The Company does not anticipate the amendments in this ASU will be material to its consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, Codification Improvements, which provides updates for technical corrections, clarifications to guidance, simplifications to wording or structure of guidance, and other minor improvements across various areas of accounting within GAAP. This ASU is effective for all entities for fiscal years beginning after December 15, 2020, with early adoption permitted. The amendments of this ASU should be applied retrospectively. The Company is currently evaluating the effects of this guidance and does not anticipate the adoption of this ASU will be material to its consolidated financial statements.

#### *Recently Adopted Accounting Pronouncements*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), which modified the measurement of expected credit losses of certain financial instruments. The Company adopted this ASU as of the first day of fiscal 2021. As a result, the Company changed its method of estimating its allowance for doubtful accounts for trade receivables to be based upon the Company’s historical credit loss experience, adjusted for asset-specific risk characteristics, current economic conditions, and reasonable forecasts. The change in estimating the allowance for doubtful accounts did not have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), which modified disclosure requirements on fair value measurements of Accounting Standards Codification (“ASC”) 820. The Company adopted this ASU as of the first day of fiscal 2021. The adoption of this ASU did not have a material effect on the consolidated financial statements or related disclosures.

### **3. Business Combination**

On August 21, 2019, the Company’s wholly-owned subsidiary Simply Good Foods USA, Inc., formerly known as Atkins Nutritionals, Inc., (“Simply Good USA”) entered into a Stock and Unit Purchase Agreement (the “Purchase Agreement”) to acquire Quest Nutrition, LLC (“Quest”), a healthy lifestyle food company (the “Acquisition of Quest”). On November 7, 2019, Simply Good USA completed the Acquisition of Quest via Simply Good USA’s acquisition of 100% of the equity interests of Voyage Holdings, LLC and VMG Quest Blocker, Inc. (the “Target Companies”) for a cash purchase price at closing of \$988.9 million subject to customary post-closing adjustments for the Target Companies’ levels of cash, indebtedness, net working capital and transaction expenses as of the closing date.

Simply Good USA acquired Quest as a part of the Company’s vision 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. Quest is a healthy lifestyle food company offering a variety of bars, cookies, chips, ready-to-drink shakes and pizzas that compete in many of the attractive, fast growing sub-segments within the nutritional snacking category.

The Acquisition of Quest was funded by the Company through a combination of cash, equity and debt financing. Total consideration paid on the closing date was \$988.9 million. Cash sources of funding included \$195.3 million of cash on hand, net proceeds

of approximately \$350.0 million from an underwritten public offering of common stock, and \$443.6 million in new term loan debt. In the third fiscal quarter of 2020, the Company received a post-closing release from escrow of approximately \$2.1 million related to net working capital adjustments, resulting in a total net consideration paid of \$986.8 million.

For the thirty-nine weeks ended May 30, 2020, *Business transaction costs* within the Condensed Consolidated Statements of Operations and Comprehensive Income were \$26.9 million, which included \$14.5 million of transaction advisory fees related to the Acquisition of Quest, \$3.2 million of banker commitment fees, \$6.1 million of non-deferrable debt issuance costs related to the incremental term loan, and \$3.1 million of other costs, including legal, due diligence, and accounting fees. Included in the transaction advisory fees was \$12.0 million paid to Centerview Partners LLC, an investment banking firm that served as the lead financial advisor to the Company for this transaction. Three members of the Company's Board of Directors, Messrs. Kilts, West, and Ratzan, have business relationships with certain partners of Centerview Partners LLC (including relating to Centerview Capital Consumer, a private equity firm and affiliate of Conyers Park Sponsor LLC), but they are not themselves partners, executives or employees of Centerview Partners LLC, and Centerview Partners LLC is not a related party of the Company pursuant to applicable rules and policies. The advisory fee paid to Centerview Partners LLC represented approximately 1.2% of the total cash purchase price paid by the Company on the closing date of the Acquisition of Quest. All transaction advisory fees relating to the Acquisition of Quest were approved by the Company's Audit Committee.

The following table sets forth the final purchase price allocation of the Acquisition of Quest to the estimated fair value of the net assets acquired at the date of acquisition, in thousands:

Assets acquired:	
Cash and cash equivalents	\$ 4,745
Accounts receivable, net	25,359
Inventories	44,032
Prepaid assets	1,214
Other current assets	3,812
Property and equipment, net <sup>(1)</sup>	9,843
Intangible assets, net <sup>(2)</sup>	868,375
Other long-term assets	20,997
Liabilities assumed:	
Accounts payable	25,200
Other current liabilities	11,237
Deferred income taxes <sup>(3)</sup>	10,754
Other long-term liabilities	18,891
Total identifiable net assets	912,295
Goodwill <sup>(4)</sup>	74,525
Total assets acquired and liabilities assumed	<u>\$ 986,820</u>

<sup>(1)</sup> Property and equipment, net primarily consisted of leasehold improvements for the Quest headquarters of \$6.9 million, furniture and fixtures of \$2.2 million, and equipment of \$0.7 million. The Quest headquarters lease ends in April 2029. The useful lives of the leasehold improvements, furniture and fixtures, and equipment are consistent with the Company's accounting policies.

<sup>(2)</sup> Intangible assets were recorded at fair value consistent with ASC 820, Fair Value Measurements, as a result of the Acquisition of Quest. Intangible assets consisted of \$750.0 million of indefinite brands and trademarks, \$115.0 million of amortizable customer relationships, and \$3.4 million of internally developed software. The useful lives of the intangible assets are disclosed in Note 5 of the condensed consolidated financial statements. The fair value measurements of the assets and liabilities were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value measurement hierarchy. Level 3 fair market values were determined using a variety of information, including estimated future cash flows and market comparable data and companies. The fair values of the intangible assets were estimated using inputs primarily from the income approach and the with/without method, which estimates the value using the cash flow impact in a hypothetical scenario where the customer relationships are not in place. The significant assumptions used in estimating the fair value of the intangible assets include the estimated life the asset will contribute to cash flows, profitability, and the estimated discount rate.

<sup>(3)</sup> Primarily as a result of the fair value attributable to the identifiable intangible assets, the deferred income tax liability was \$10.8 million.

<sup>(4)</sup> Goodwill was recorded at fair value consistent with ASC 820, Fair Value Measurements, as a result of the Acquisition of Quest. Amounts recorded for goodwill created in an acquisition structured as a stock purchase for tax are generally not expected to be deductible for tax purposes. Amounts recorded for goodwill resulting in a tax basis step-up are generally expected to be deductible for tax purposes. Tax deductible goodwill was estimated to be \$67.7 million. Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized.

The Company completed its final assessment of purchase price allocation for the Acquisition of Quest to the estimated fair value of the net assets acquired at the date of acquisition during the first quarter of fiscal 2021. Since the initial preliminary estimates reported in the first fiscal quarter of 2020, the Company updated certain amounts reflected in the final purchase price allocation, as summarized in the fair values of assets acquired and liabilities assumed in the table above. Specifically, the carrying amount of the intangible assets, net increased by \$20.0 million as a result of valuation adjustments related to the Company's finalization of tax attributes, which also resulted in a decrease to deferred income taxes of \$3.2 million. Additionally, accounts receivable, net decreased \$4.3 million and inventories increased \$0.9 million due to fair value measurement period adjustments, and the carrying amount of property and equipment, net decreased by \$0.5 million to reflect its estimated fair value. As a result of these adjustments and the change in total net consideration paid of approximately \$2.1 million related to net working capital adjustments discussed above, goodwill decreased \$21.5 million. Measurement period adjustments were recognized in the reporting period in which the adjustments were determined and calculated as if the accounting had been completed at the acquisition date.

The results of Quest's operations have been included in the Company's Consolidated Financial Statements since November 7, 2019, the date of acquisition. The following table provides net sales from the acquired Quest business included in the Company's results:

<i>(In thousands)</i>	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
Net sales <sup>(1)</sup>	\$ 127,097	\$ 87,234	\$ 327,891	\$ 192,621

<sup>(1)</sup> Net sales for the thirteen and thirty-nine weeks ended May 29, 2021 excludes immaterial international net sales.

### Unaudited Pro Forma Financial Information

Pro forma financial information is not intended to represent or be indicative of the actual results of operations of the combined business that would have been reported had the Acquisition of Quest been completed at the beginning of the fiscal year 2019, nor is it representative of future operating results of the Company. The following unaudited pro forma financial information presents the combined results of the Company and Quest as if the Acquisition of Quest has occurred at the beginning of fiscal 2019:

<i>(In thousands)</i>	Thirteen Weeks Ended	Thirty-Nine Weeks Ended
	May 30, 2020	May 30, 2020
Revenue	\$ 215,101	\$ 662,758
Gross profit	\$ 88,626	\$ 267,293
Net income	\$ 47,040	\$ 128,689

### 4. Revenue Recognition

Revenues 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 core brands:

<i>(In thousands)</i>	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
<b>North America <sup>(1)</sup></b>				
Atkins	\$ 146,082	\$ 121,937	\$ 382,998	\$ 381,184
Quest <sup>(2)</sup>	127,097	87,234	327,891	192,621
Total North America	273,179	209,171	710,889	573,805
<b>International</b>	10,822	5,930	34,871	20,550
Total net sales	\$ 284,001	\$ 215,101	\$ 745,760	\$ 594,355

<sup>(1)</sup> 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. The North America geographic area includes the divested SimplyProtein® brand.

<sup>(2)</sup> Quest net sales are primarily in North America.

Charges related to credit loss on accounts receivables from transactions with external customers were approximately \$0.6 million and \$0.7 million for the thirteen and thirty-nine weeks ended May 29, 2021, respectively, and were approximately \$0.1 million and

\$0.2 million for the thirteen and thirty-nine weeks ended May 30, 2020, respectively. As of May 29, 2021 and August 29, 2020, the allowances for doubtful accounts related to these accounts receivable were \$1.2 million and \$0.5 million, respectively.

## 5. Goodwill and Intangibles

Changes to *Goodwill* during the thirty-nine weeks ended May 29, 2021 were as follows:

<i>(in thousands)</i>	Goodwill
Balance as of August 29, 2020	\$ 544,774
Acquisition of business, measurement period adjustment	1,178
Sale of business	(2,818)
Balance as of May 29, 2021	<u>\$ 543,134</u>

The change in *Goodwill* attributed to the acquisition of a business during the thirty-nine weeks ended May 29, 2021 was the result of measurement period adjustments made to finalize the acquisition method of accounting for the Acquisition of Quest as described in Note 3. Additionally, effective September 24, 2020, the Company sold the assets exclusively related to its SimplyProtein® brand of products for approximately \$8.8 million of consideration, including cash of \$5.8 million and a note receivable for \$3.0 million, to a newly formed entity led by the Company's former Canadian-based management team who had been responsible for this brand prior to the sale transaction (the "SimplyProtein Sale"). In addition to purchasing these assets, the buyer assumed certain liabilities related to the SimplyProtein brand's business. There was no gain or loss recognized as a result of the SimplyProtein Sale. In conjunction with the SimplyProtein Sale, the Company disposed of \$2.8 million of goodwill associated with the SimplyProtein business.

There were no impairment charges related to goodwill during the thirteen and thirty-nine weeks ended May 29, 2021 or since the inception of the Company.

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

<i>(In thousands)</i>	Useful life	May 29, 2021		
		Gross carrying amount	Accumulated amortization	Net carrying amount
<b>Intangible assets with indefinite life:</b>				
Brands and trademarks	Indefinite life	\$ 974,000	\$ —	\$ 974,000
<b>Intangible assets with finite lives:</b>				
Customer relationships	15 years	174,000	27,203	146,797
Proprietary recipes and formulas	7 years	7,000	3,881	3,119
Licensing agreements	14 years	22,000	6,099	15,901
Software and website development costs	3 - 5 years	5,302	2,975	2,327
Intangible assets in progress	3 - 5 years	55	—	55
		<u>\$ 1,182,357</u>	<u>\$ 40,158</u>	<u>\$ 1,142,199</u>

<i>(In thousands)</i>	Useful life	August 29, 2020		
		Gross carrying amount	Accumulated amortization	Net carrying amount
<b>Intangible assets with indefinite life:</b>				
Brands and trademarks	Indefinite life	\$ 979,000	\$ —	\$ 979,000
<b>Intangible assets with finite lives:</b>				
Customer relationships	15 years	174,000	18,503	155,497
Proprietary recipes and formulas	7 years	7,000	3,131	3,869
Licensing agreements	14 years	22,000	4,920	17,080
Software and website development costs	3 - 5 years	5,967	2,645	3,322
		<u>\$ 1,187,967</u>	<u>\$ 29,199</u>	<u>\$ 1,158,768</u>

Changes in *Intangible assets, net* during the thirty-nine weeks ended May 29, 2021 were primarily related to the SimplyProtein Sale and recurring amortization expense. In conjunction with the SimplyProtein Sale, the Company sold its SimplyProtein brand intangible asset, which had a carrying value of approximately \$5.0 million as of the date of the sale. Amortization expense related to intangible assets

during each of the thirteen weeks ended May 29, 2021 and May 30, 2020 was \$3.8 million and \$3.9 million, respectively. Amortization expense related to intangible assets during the thirty-nine weeks ended May 29, 2021 and May 30, 2020 was \$11.6 million and \$10.1 million, respectively. There were no impairment charges related to intangible assets during the thirteen and thirty-nine weeks ended May 29, 2021 and May 30, 2020.

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

<i>(In thousands)</i>	Amortization
Remainder of 2021	\$ 3,834
2022	15,224
2023	14,938
2024	14,257
2025	13,171
2026 and thereafter	106,720
Total	<u>\$ 168,144</u>

## 6. Long-Term Debt and Line of Credit

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

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

On November 7, 2019, the Company entered into an 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) and as of the Amendment No. 2 Effective Date (as defined in the Incremental Facility Amendment), the Initial Term Loans bear interest at a rate equal to, at the Company’s option, either LIBOR plus an applicable margin of 3.75% or a base rate plus an applicable margin of 2.75%. The Incremental Facility Amendment was executed to partially finance the Acquisition of Quest. No amounts under the Term Facility were repaid as a result of the execution of the Incremental Facility Amendment.

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 6.25:1.00 (with a reduction to 6.00:1.00 on and after the third anniversary of the closing date of the Credit Agreement) contingent on credit extensions in excess of 30% of the total amount of commitments available under the Revolving Credit Facility. Any failure to comply with the restrictions of the credit facilities may result in an event of default. The Company was in compliance with all financial covenants as of May 29, 2021 and August 29, 2020, respectively.



Long-term debt consists of the following:

<i>(In thousands)</i>	May 29, 2021	August 29, 2020
Term Facility (effective rate of 4.8% at May 29, 2021)	506,500	606,500
Finance lease liabilities (effective rate of 5.6% at May 29, 2021)	758	922
Less: Deferred financing fees	6,822	10,272
Total debt	500,436	597,150
Less: Current finance lease liabilities	282	271
Long-term debt, net of deferred financing fees	<u>\$ 500,154</u>	<u>\$ 596,879</u>

The Company is not required to make principal payments on the Term Facility over the twelve months following the period ended May 29, 2021. The outstanding balance of the Term Facility is due upon its maturity in July 2024. As of May 29, 2021 and August 29, 2020, there were no amounts drawn against the Revolving Credit Facility.

As of May 29, 2021, the Company had letters of credit in the amount of \$3.5 million outstanding. These letters of credit offset against the availability of the Revolving Credit Facility and exist to support three of the Company's leased buildings and insurance programs relating to workers' compensation.

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 May 29, 2021 and August 29, 2020, 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.

## 7. 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.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of May 29, 2021 and August 29, 2020 due to the relatively short maturity of these instruments.

### *Level 3 Measurements*

The Company has outstanding liability-classified Private Warrants that allow holders to purchase 6,700,000 shares of the Company's common stock. Such Private Warrants are held by Conyers Park Sponsor, LLC, a related party. The Company utilizes the Black-Scholes valuation 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 (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 SPAC 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 reflects a Level 3 measurement within the fair value measurement hierarchy.



There were 6,700,000 Private Warrants outstanding as of May 29, 2021 and May 30, 2020. The table below summarizes the inputs used to calculate the fair value of the warrant liability at each of the dates indicated below:

	May 29, 2021		May 30, 2020	
Exercise Price	\$	11.50	\$	11.50
Stock Price	\$	34.53	\$	17.03
Dividend Yield		— %		— %
Expected Term (in Years)		1.11		2.11
Risk-Free Interest Rate		0.06 %		0.16 %
Expected Volatility		23.90 %		31.80 %
Per Share Value of Warrants	\$	23.04	\$	6.26

The periodic remeasurement of the warrant liability is reflected in *(Loss) gain in fair value change of warrant liability* within the Condensed Consolidated Statements of Operations and Comprehensive Income. The adjustments for the thirteen and thirty-nine weeks ended May 29, 2021 were a loss of \$35.8 million and \$60.7 million, respectively. The adjustments for the thirteen and thirty-nine weeks ended May 30, 2020 were a gain of \$31.7 million and \$82.7 million, respectively. The adjustments resulted in a total warrant liability at May 29, 2021 and May 30, 2020 of \$154.4 million and \$41.9 million, respectively.

## 8. Income Taxes

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

<i>(In thousands)</i>	Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020
Income before income taxes	\$ 53,729	\$ 113,166
Income tax expense	\$ 31,095	\$ 8,238
Effective tax rate	57.9 %	7.3 %

The effective tax rate for the thirty-nine weeks ended May 29, 2021 was 50.6% greater than the effective tax rate for the thirty-nine weeks ended May 30, 2020, which was primarily driven by the non-cash change in the fair value of the warrant liability and other permanent differences.

## 9. Leases

The components of lease expense were as follows:

(In thousands)	Statements of Operations Caption	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
		May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
<b>Operating lease cost:</b>					
Lease cost	<i>Cost of goods sold and General and administrative</i>	\$ 1,486	\$ 1,479	\$ 4,480	\$ 3,726
Variable lease cost <sup>(1)</sup>	<i>Cost of goods sold and General and administrative</i>	470	448	1,246	1,184
Total operating lease cost		1,956	1,927	5,726	4,910
Short-term lease cost	<i>General and administrative</i>	—	6	—	30
<b>Finance lease cost:</b>					
Amortization of right-of-use assets	<i>Cost of goods sold</i>	69	69	205	205
Interest on lease liabilities	<i>Interest expense</i>	10	14	35	46
Total finance lease cost		79	83	240	251
<b>Total lease cost</b>		<b>\$ 2,035</b>	<b>\$ 2,016</b>	<b>\$ 5,966</b>	<b>\$ 5,191</b>

<sup>(1)</sup> Variable lease cost primarily consists of common area maintenance, such as cleaning and repairs.

In conjunction with the Company's restructuring activities as discussed in Note 14, the Company incurred impairment charges of \$0.7 million in the thirty-nine weeks ended May 29, 2021 related to its operating lease right-of-use assets for leases in Toronto, Ontario and the Netherlands. Additionally, the Company terminated the lease in Toronto, Ontario, which resulted in a gain on lease termination of \$0.2 million in the thirty-nine weeks ended May 29, 2021. There were no additional impairment charges during the thirteen weeks ended May 29, 2021. The effect of these restructuring activities has been included within *General and administrative* on the Condensed Consolidated Statements of Operations and Comprehensive Income. Refer to Note 14, Restructuring and Related Charges, for additional information regarding restructuring activities.

The gross amounts of assets and liabilities related to both operating and finance leases are as follows:

(In thousands)	Balance Sheets Caption	May 29, 2021	August 29, 2020
<b>Assets</b>			
Operating lease right-of-use assets	<i>Other long-term assets</i>	\$ 21,957	\$ 25,703
Finance lease right-of-use assets	<i>Property and equipment, net</i>	708	912
Total lease assets		\$ 22,665	\$ 26,615
<b>Liabilities</b>			
<b>Current:</b>			
Operating lease liabilities	<i>Accrued expenses and other current liabilities</i>	\$ 3,851	\$ 4,329
Finance lease liabilities	<i>Current maturities of long-term debt</i>	282	271
<b>Long-term:</b>			
Operating lease liabilities	<i>Other long-term liabilities</i>	20,154	22,764
Finance lease liabilities	<i>Long-term debt, less current maturities</i>	476	651
Total lease liabilities		\$ 24,763	\$ 28,015

Future maturities of lease liabilities as of May 29, 2021 were as follows:

<i>(In thousands)</i>	Operating Leases	Finance Leases
Fiscal year ending:		
Remainder of 2021	\$ 1,467	\$ 78
2022	4,608	313
2023	4,072	278
2024	4,232	145
2025	3,839	—
Thereafter	11,051	—
Total lease payments	29,269	814
Less: Interest	(5,264)	(56)
Present value of lease liabilities	<u>\$ 24,005</u>	<u>\$ 758</u>

As of May 29, 2021, the Company has entered into a lease with estimated total minimum future lease payments of \$32.2 million over a 10-year minimum lease term that has not yet commenced and, as a result, is not yet recorded on the Condensed Consolidated Balance Sheets. The Company expects the lease to commence in the fourth quarter of fiscal year 2021, and the Company has the option to renew the lease for an additional five years or ten years after the minimum lease term.

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

	May 29, 2021	August 29, 2020
Weighted-average remaining lease term (in years)		
Operating leases	6.64	6.97
Finance leases	2.68	3.41
Weighted-average discount rate		
Operating leases	5.8 %	5.7 %
Finance leases	5.6 %	5.6 %

Supplemental and other information related to leases was as follows:

<i>(In thousands)</i>	Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 5,619	\$ 4,655
Operating cash flows from finance leases	\$ 34	\$ 8
Financing cash flows from finance leases	\$ 235	\$ 247

## 10. 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.

During the fiscal year ended August 31, 2019, the Company reserved \$3.5 million for the potential settlement of class action litigation concerning certain product label claims. During the thirty-nine weeks ended May 30, 2020, the Company reserved an additional \$0.3 million. The reserve was included within *General and administrative* in the Condensed Consolidated Statements of Operations and Comprehensive Income, and the reserve was fully paid into escrow and settled during the fiscal year ended August 29, 2020.

As of May 29, 2021 and August 29, 2020, the Company had \$0.7 million and \$1.3 million reserved for potential settlements, respectively.

## **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 May 29, 2021, the Company will be required to make payments of \$2.8 million over the next year.

## **11. Stockholders' Equity**

### **Public Equity Offering**

On October 9, 2019, the Company completed an underwritten public offering of 13,379,205 shares of common stock at a price to the public of \$26.35 per share. The Company paid underwriting discounts and commissions of \$0.19 per share resulting in net proceeds to the Company of \$26.16 per share, or approximately \$350.0 million (the "Offering"). The Company paid \$0.8 million for legal, accounting and registrations fees related to the Offering. The net proceeds were used to pay a portion of the purchase price and related fees and expenses for the Acquisition of Quest.

### **Warrants to Purchase Common Stock**

Prior to the Acquisition of Atkins, Conyers Park issued 13,416,667 public warrants and 6,700,000 Private Warrants. The Company assumed the Conyers Park warrants to purchase common stock in connection with the Acquisition of Atkins. As a result of the Acquisition of Atkins, the warrants issued by Conyers Park were no longer exercisable for shares of Conyers Park common stock, but were instead exercisable for common stock of the Company. All other features of the warrants were unchanged.

Each whole warrant entitles the holder to purchase one share of the Company's common stock at a price of \$11.50 per share. The warrants became exercisable 30 days after the completion of the Acquisition of Atkins in 2017 and expire five years after that date, or earlier upon redemption or liquidation, as applicable.

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

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

As of May 29, 2021, the Private Warrants to purchase 6,700,000 shares of the Company's common stock remain outstanding, have not been transferred by Conyers Park Sponsor, LLC, a related party, and remain liability-classified. As discussed in Note 7, the liability-classified warrants are 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 remeasurement of the warrant liability is reflected in *(Loss) gain in fair value change of warrant liability* within the Condensed Consolidated Statements of Operations and Comprehensive Income.

### **Stock Repurchase Program**

On November 13, 2018, the Company announced that its Board of Directors had adopted a \$50.0 million stock repurchase program. Under the stock repurchase program, the Company may repurchase shares from time to time in the open market or in privately negotiated transactions. The stock repurchase program does not obligate the Company to acquire any specific number of shares or acquire

shares over any specific period of time. The stock repurchase program may be suspended or discontinued at any time by the Company and does not have an expiration date.

During the thirty-nine weeks ended May 29, 2021 and May 30, 2020, the Company did not repurchase any shares of common stock. As of May 29, 2021, approximately \$47.9 million remained available under the stock repurchase program.

## 12. 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. In periods in which the Company has a net loss, diluted earnings 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 Company has outstanding liability-classified Private Warrants to purchase 6,700,000 shares of the Company's common stock. During periods when the effect is dilutive, the Company assumes share settlement of the instruments as of the beginning of the reporting period and adjusts the numerator to remove the change in fair value of the warrant liability and adjusts the denominator to include the dilutive shares, calculated using the treasury stock method. During periods when the impact is anti-dilutive, the share settlement is excluded.

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

<i>(In thousands, except per share data)</i>	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
<b>Basic earnings per share computation:</b>				
Numerator:				
Net income	\$ 5,895	\$ 48,112	\$ 22,634	\$ 104,928
Denominator:				
Weighted average common shares - basic	95,767,629	95,378,495	95,730,581	93,475,539
Basic earnings per share from net income	\$ 0.06	\$ 0.50	\$ 0.24	\$ 1.12
<b>Diluted earnings per share computation:</b>				
Numerator:				
Net income	\$ 5,895	\$ 48,112	\$ 22,634	\$ 104,928
Gain in fair value change of warrant liability	—	(31,703)	—	(82,655)
Numerator for diluted earnings per share	\$ 5,895	\$ 16,409	\$ 22,634	\$ 22,273
Denominator:				
Weighted average common shares outstanding - basic	95,767,629	95,378,495	95,730,581	93,475,539
Private Warrants	—	2,285,110	—	3,392,317
Employee stock options	1,465,477	630,408	1,191,593	1,028,218
Non-vested shares	356,550	28,303	275,006	37,476
Weighted average common shares - diluted	97,589,656	98,322,316	97,197,180	97,933,550
Diluted earnings per share from net income	\$ 0.06	\$ 0.17	\$ 0.23	\$ 0.23

Diluted earnings per share calculations for the thirteen and thirty-nine weeks ended May 29, 2021 excluded 4.3 million and 3.9 million shares, issuable upon exercise of Private Warrants, respectively, that would have been anti-dilutive.

Diluted earnings per share calculations for the thirteen and thirty-nine weeks ended May 29, 2021 excluded an immaterial number and 0.2 million shares, issuable upon exercise of stock options, respectively, that would have been anti-dilutive. Diluted earnings per share calculations for the thirteen and thirty-nine weeks ended May 30, 2020 excluded 0.8 million and 0.6 million shares, issuable upon exercise of stock options, respectively, that would have been anti-dilutive.

Diluted earnings per share calculations for the thirteen and thirty-nine weeks ended May 29, 2021 and the thirty-nine weeks ended May 30, 2020 excluded an immaterial number of non-vested shares that would have been anti-dilutive. Diluted earnings per share calculations for the thirteen weeks ended May 30, 2020 excluded 0.1 million non-vested shares that would have been anti-dilutive.

### 13. 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 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 \$2.2 million and \$2.2 million in the thirteen weeks ended May 29, 2021 and May 30, 2020, respectively, and \$5.8 million and \$5.9 million in the thirty-nine weeks ended May 29, 2021 and May 30, 2020, respectively.

#### Stock Options

The following table summarizes stock option activity for the thirty-nine weeks ended May 29, 2021:

	Shares underlying options	Weighted average exercise price	Weighted average remaining contractual life (years)
Outstanding as of August 29, 2020	2,615,899	\$ 14.33	
Granted	289,555	20.47	
Exercised	(58,308)	12.00	
Forfeited	(53,983)	22.33	
Outstanding as of May 29, 2021	2,793,163	\$ 14.86	6.85
Vested and expected to vest as of May 29, 2021	2,793,163	\$ 14.86	6.85
Exercisable as of May 29, 2021	2,215,040	\$ 13.25	6.37

As of May 29, 2021, the Company had \$2.9 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 1.7 years. During the thirty-nine weeks ended May 29, 2021 and May 30, 2020, the Company received \$0.7 million and \$0.9 million in cash from stock option exercises, respectively.

#### Restricted Stock Units

The following table summarizes restricted stock unit activity for the thirty-nine weeks ended May 29, 2021:

	Restricted Stock Units	Weighted average grant-date fair value
Non-vested as of August 29, 2020	208,023	\$ 22.82
Granted	423,387	24.84
Vested	(79,381)	25.08
Forfeited	(48,735)	21.33
Non-vested as of May 29, 2021	503,294	\$ 24.31

As of May 29, 2021, the Company had \$9.8 million of total unrecognized compensation cost related to restricted stock units that will be recognized over a weighted average period of 2.1 years.

#### Performance Stock Units

During the thirty-nine weeks ended May 29, 2021, the Board of Directors granted performance stock units under the Company's equity compensation plan. Performance stock units vest in a range between 0% and 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 thirty-nine weeks ended May 29, 2021:

	Performance stock units	Weighted average grant-date fair value
Non-vested as of August 29, 2020	295,256	\$ 17.93
Granted	116,309	23.59
Vested	—	—
Forfeited	(30,688)	22.28
Non-vested as of May 29, 2021	380,877	\$ 19.31

As of May 29, 2021, the Company had \$3.7 million of total unrecognized compensation cost related to performance stock units that will be recognized over a weighted average period of 1.3 years.

#### Stock Appreciation Rights

Stock appreciation rights (“SARs”) permit the holder to participate in the appreciation of the Company’s common stock price. The Company’s SARs settle in shares of its common stock once the applicable vesting criteria has been met. SARs cliff vest three years from the date of grant and must be exercised within ten years.

The following table summarizes SARs activity for the thirty-nine weeks ended May 29, 2021:

	Shares underlying SARs	Weighted average exercise price	Weighted average remaining contractual life (years)
Outstanding as of August 29, 2020	150,000	\$ 24.20	
Granted	—	—	
Exercised	—	—	
Forfeited	—	—	
Outstanding as of May 29, 2021	150,000	\$ 24.20	8.43
Vested and expected to vest as of May 29, 2021	150,000	\$ 24.20	8.43
Exercisable as of May 29, 2021	—	\$ —	0.00

As of May 29, 2021, the Company had \$0.2 million of total unrecognized compensation cost related to its SARs that will be recognized over a weighted average period of 1.4 years.

#### 14. 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. The new organization design became effective on August 31, 2020. These restructuring plans primarily include workforce reductions, changes in management structure, and the relocation of business activities from one location to another.

The one-time termination benefits and employee severance costs to be incurred in relation to these restructuring activities are accounted for in accordance with ASC Topic 420, Exit or Disposal Cost Obligations, and ASC Topic 712, Compensation-Nonretirement Postemployment Benefits, respectively. The Company recognizes a liability and the related expense for these restructuring costs when the liability is incurred and can be measured. Restructuring accruals are based upon management estimates at the time and can change depending upon changes in facts and circumstances subsequent to the date the original liability was recorded.

Changes to the restructuring liability during the thirty-nine weeks ended May 29, 2021 were as follows:

<i>(In thousands)</i>	Termination benefits and severance	Other	Restructuring liability
Balance as of August 29, 2020	\$ 4,139	\$ —	\$ 4,139
Charges	3,267	201	3,468
Cash payments	(6,664)	(201)	(6,865)
Balance as of May 29, 2021	<u>\$ 742</u>	<u>\$ —</u>	<u>\$ 742</u>

In addition to the restructuring costs shown above, the Company incurred impairment charges of \$0.7 million in the thirty-nine weeks ended May 29, 2021 related to its operating lease right-of-use assets for leases in Toronto, Ontario and the Netherlands. Additionally, the Company terminated the lease in Toronto, Ontario, which resulted in a gain on lease termination of \$0.2 million in the thirty-nine weeks ended May 29, 2021. There were no additional impairment charges during the thirteen weeks ended May 29, 2021. As a result, for the thirteen and thirty-nine weeks ended May 29, 2021, the Company incurred a total of \$0.2 million and \$4.0 million in restructuring and restructuring-related costs, respectively, which have been included within *General and administrative* on the Condensed Consolidated Statements of Operations and Comprehensive Income.

Since the restructuring activities were announced in May 2020, the Company has incurred aggregate restructuring and restructuring-related costs of \$9.5 million. Overall, the Company expects to incur a total of approximately \$9.9 million in restructuring and restructuring-related costs, which are to be paid throughout fiscal 2021 and the first quarter of fiscal 2022.



## 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, the effect of the COVID-19 pandemic on our business, financial condition and results of operations. We disclaim any undertaking to publicly update or revise any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. These statements reflect our current views with respect to future events and are based on assumptions subject to risks and uncertainties. Such risks and uncertainties include those related to our ability to sell our products.*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K/A for the fiscal year ended August 29, 2020 (“Annual Report”) and our unaudited condensed consolidated financial statements and the related notes appearing elsewhere in this Report. In addition to historical information, the following discussion contains forward-looking statements, 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. Our nutritious snacking platform consists of the following core brands that specialize in providing products for consumers that follow certain nutritional philosophies, dietary approaches and/or health-and-wellness trends: Atkins® for those following a low-carb lifestyle; and Quest® for consumers seeking to partner with a brand that makes the foods they crave work for them, not against them, through 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. Our platform also positions us to continue to selectively pursue acquisition opportunities of brands in the nutritious snacking category.

To that end, in November 2019, we completed the acquisition of Quest Nutrition, LLC (“Quest”), a healthy lifestyle food company, for a cash purchase price of approximately \$1.0 billion (subject to customary adjustments) (the “Acquisition of Quest”). For more information, please see “Liquidity and Capital Resources—Acquisition of Quest.”

### Effects of COVID-19

In December 2019, a novel coronavirus disease, or COVID-19, was reported and in January 2020, the World Health Organization (“WHO”) declared it a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law. The CARES Act provided a substantial stimulus and assistance package intended to address the effect of the COVID-19 pandemic, including tax relief and government loans, grants and investments. Additionally, various federal, state and local government-imposed movement restrictions and initiatives have been implemented to reduce the global transmission of COVID-19, including reduced or eliminated food services, the closure of retailing establishments, the promotion of social distancing and the adoption of remote working policies.

Beginning in the third quarter of 2020, we actively engaged with the various elements of our value chain, including our customers, contract manufacturers, and logistics and transportation providers, to meet demand for our products and to remain informed of any challenges within our value chain. Given the unpredictable nature of the COVID-19 pandemic and the initial surge in consumption, we increased finished goods inventory of some of our key products. In the fourth quarter of 2020 and continuing into the second quarter of 2021, consumer consumption habits became more steady and inventory levels normalized. Based on information available to us as of the

date of this Report, we believe we will be able to deliver our products to meet customer orders on a timely basis, and 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, and intend to adapt our plans as needed to continue to drive our business and meet our obligations during the evolving COVID-19 situation.

Our consolidated results of operations for the thirteen and thirty-nine weeks ended May 29, 2021 continued to be affected by changes in consumer shopping and consumption behavior due to COVID-19. However, for the thirteen and thirty-nine weeks ended May 29, 2021, our business improved, driven by increasing consumer mobility and improving shopper traffic in brick and mortar retailers versus the prior year period that was pressured by COVID-19 movement restrictions. We believe there is a high correlation of consumer mobility to the consumption of our products. As shopper traffic within brick and mortar retailers improves, particularly in the mass and convenience store channels, our business, particularly bars, performs well. There is still uncertainty related to the duration of reduced consumer mobility and when shopping trips will fully return to pre-pandemic levels. While our Quest brand has outperformed its portion of the nutritious snacking segment, the performance of our Atkins brand, which is part of the weight management portion of the market, has improved at a slower rate. However, the Atkin's performance for the thirteen weeks ended May 29, 2021 has improved sequentially, primarily due to increasing consumer mobility and improving shopper traffic in brick and mortar retailers.

We remain uncertain of the ultimate effect COVID-19 could have on our business notwithstanding the distribution of several U.S. government approved vaccines and the easing of movement restrictions. This uncertainty stems from the potential for, among other things, (i) the possibility for mutations of COVID-19 to result in increased rates of reported cases for which currently approved vaccines are not effective, (ii) unexpected supply chain disruptions, (iii) changes to customer operations, (iv) reversal in recently improving consumer purchasing and consumption behavior, and (v) the closure of customer establishments.

### **Restructuring and Related Charges**

In May 2020, we announced certain restructuring activities in conjunction with the implementation of our future-state organization design, which created a fully integrated organization with our completed Acquisition of Quest. The new organization design became effective on August 31, 2020. These restructuring plans primarily include workforce reductions, changes in management structure, and the relocation of business activities from one location to another.

For the thirteen and thirty-nine weeks ended May 29, 2021, we incurred a total of \$0.2 million and \$4.0 million in restructuring and restructuring-related costs, respectively, which have been included within *General and administrative* on the Condensed Consolidated Statements of Operations and Comprehensive Income. As of May 29, 2021, we have incurred aggregate restructuring and restructuring-related costs of \$9.5 million since May 2020. Overall, we expect to incur a total of approximately \$9.9 million in restructuring and restructuring-related costs, which are to be paid throughout fiscal 2021 and the first quarter of fiscal 2022. Refer to Note 14, Restructuring and Related Charges, of our Notes to Unaudited Condensed Consolidated Financial Statements in this Report for additional information regarding restructuring activities.

### **SimplyProtein Sale**

Effective September 24, 2020, we sold the assets exclusively related to our SimplyProtein® brand of products for approximately \$8.8 million of consideration, including cash of \$5.8 million and a note receivable for \$3.0 million, to a newly formed entity led by the Company's former Canadian-based management team who had been responsible for this brand prior to the sale transaction (the "SimplyProtein Sale"). In addition to purchasing these assets, the buyer assumed certain liabilities related to the SimplyProtein® brand's business. There was no gain or loss recognized as a result of the SimplyProtein Sale. The transaction enables our management to focus its full time and our resources on our core Atkins® and Quest® branded businesses and other strategic initiatives.

### **Supply Chain Costs**

As we expect higher raw material and freight costs starting in the fiscal fourth quarter of 2021 and in fiscal year 2022, in June 2021 management notified our customers of our plans to institute a price increase effective in September 2021, the first month of our fiscal year 2022. Management believes the price increase will enable us to continue to invest in initiatives that drive growth.

## 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, depreciation and amortization, and business transaction costs. 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 salaries, 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.
- *Business transaction costs.* Business transaction costs comprise legal, due diligence, consulting and accounting firm expenses associated with the process of actively pursuing potential and completed business combinations, including the Acquisition of Quest.

## Results of Operations

Sales and earnings growth improved during the third quarter, driven by increasing consumer mobility compared to the prior year which experienced COVID-19 movement restrictions. As consumer foot traffic within brick and mortar retailers improved, particularly in the mass and convenience store channels, our business, particularly bars, did well. Strong sales growth, cost controls around general and administrative costs, and Acquisition of Quest synergies more than offset higher marketing and employee-related costs.

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, the presentation of 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 net income to EBITDA and Adjusted EBITDA for each applicable period.

**Comparison of Unaudited Results for the Thirteen Weeks Ended May 29, 2021 and the Thirteen Weeks Ended May 30, 2020**

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

<i>(In thousands)</i>	Thirteen Weeks Ended		Thirteen Weeks Ended	
	May 29, 2021	% of Sales	May 30, 2020	% of Sales
Net sales	\$ 284,001	100.0 %	\$ 215,101	100.0 %
Cost of goods sold	162,998	57.4 %	126,475	58.8 %
Gross profit	121,003	42.6 %	88,626	41.2 %
<b>Operating expenses:</b>				
Selling and marketing	30,826	10.9 %	24,510	11.4 %
General and administrative	25,668	9.0 %	28,713	13.3 %
Depreciation and amortization	4,187	1.5 %	4,248	2.0 %
Business transaction costs	—	— %	47	— %
Total operating expenses	60,681	21.4 %	57,518	26.7 %
Income from operations	60,322	21.2 %	31,108	14.5 %
<b>Other income (expense):</b>				
Interest income	1	— %	29	— %
Interest expense	(7,985)	(2.8)%	(8,324)	(3.9)%
(Loss) gain in fair value change of warrant liability	(35,833)	(12.6)%	31,703	14.7 %
Gain on legal settlement	5,000	1.8 %	—	— %
Loss on foreign currency transactions	(272)	(0.1)%	(418)	(0.2)%
Other income	70	— %	59	— %
Total other (expense) income	(39,019)	(13.7)%	23,049	10.7 %
Income before income taxes	21,303	7.5 %	54,157	25.2 %
Income tax expense	15,408	5.4 %	6,045	2.8 %
Net income	\$ 5,895	2.1 %	\$ 48,112	22.4 %
<b>Other financial data:</b>				
Adjusted EBITDA <sup>(1)</sup>	\$ 67,459	23.8 %	\$ 43,363	20.2 %

<sup>(1)</sup> 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 \$284.0 million represented an increase of \$68.9 million, or 32.0%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. The increase was primarily driven by Quest brand net sales growth and solid e-commerce growth across both the Atkins brand and Quest brand. The increase was partially offset by a 0.9% decrease in net sales due to the SimplyProtein Sale and the restructuring-related business activities in Europe in fiscal year 2021. Additionally, net sales in the thirteen weeks ended May 29, 2021 were negatively affected by higher trade promotions.

**Cost of goods sold.** Cost of goods sold increased \$36.5 million, or 28.9%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. The cost of goods sold increase was driven by sales volume growth.

**Gross profit.** Gross profit increased \$32.4 million, or 36.5%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. Gross profit of \$121.0 million, or 42.6% of net sales, for the thirteen weeks ended May 29, 2021 increased 140 basis points from 41.2% of net sales for the thirteen weeks ended May 30, 2020. The increase in gross profit margin was primarily the result of favorable product form and retail channel mix given higher shopper traffic in brick and mortar channels.

**Operating expenses.** Operating expenses increased \$3.2 million, or 5.5%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020 due to the following:

- **Selling and marketing.** Selling and marketing expenses increased \$6.3 million, or 25.8%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. The increase was primarily related to higher marketing spend that was reinstated following a decline in the prior year period due to the impact of COVID 19.
- **General and administrative.** General and administrative expenses decreased \$3.0 million, or 10.6%, for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. The decrease was primarily attributable to a \$3.9 million reduction in costs related to the integration of Quest and a decrease in restructuring charges of \$1.2 million in the thirteen weeks ended May 29, 2021. These decreases were partially offset by an increase in incentive compensation in the thirteen weeks ended May 29, 2021.
- **Depreciation and amortization.** Depreciation and amortization expenses remained approximately flat at \$4.2 million for the thirteen weeks ended May 29, 2021 and May 30, 2020.
- **Business transaction costs.** Business transaction costs were nominal for the thirteen weeks ended May 30, 2020 and comprised expenses related to the Acquisition of Quest.

**Interest income.** Interest income was nominal for each of the thirteen weeks ended May 29, 2021 and May 30, 2020.

**Interest expense.** Interest expense decreased \$0.3 million for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020, primarily due to principal payments reducing the outstanding balance of the Term Facility (as defined below) to \$506.5 million as of May 29, 2021 from \$635.5 million as of May 30, 2020, offset by accelerated deferred financing fee amortization.

**(Loss) gain in fair value change of warrant liability.** A non-cash loss of \$35.8 million in fair value change of warrant liability was recorded for the thirteen weeks ended May 29, 2021 compared to a non-cash gain of \$31.7 million for the thirteen weeks ended May 30, 2020. The increase in loss relates to changes in the valuation of warrant liabilities primarily driven by changes in stock price and volatility.

**Gain on legal settlement.** The Company recorded a \$5.0 million gain on a legal settlement during the thirteen weeks ended May 29, 2021.

**Loss on foreign currency transactions.** A loss of \$0.3 million in foreign currency transactions was recorded for the thirteen weeks ended May 29, 2021 compared to a foreign currency loss of \$0.4 million for the thirteen weeks ended May 30, 2020. The change relates to changes in foreign currency rates related to international operations.

**Income tax expense.** Income tax expense increased \$9.4 million for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. The increase in our income tax expense is primarily driven by higher income from operations, partially offset by permanent differences.

**Net income.** Net income was \$5.9 million for the thirteen weeks ended May 29, 2021, a decrease of \$42.2 million compared to net income of \$48.1 million for the thirteen weeks ended May 30, 2020. The decrease was primarily related to an increase in loss in fair value change of the warrant liability.

**Adjusted EBITDA.** Adjusted EBITDA increased \$24.1 million, or 55.6% for the thirteen weeks ended May 29, 2021 compared to the thirteen weeks ended May 30, 2020. 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 Thirty-Nine Weeks Ended May 29, 2021 and the Thirty-Nine Weeks Ended May 30, 2020**

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

(In thousands)	Thirty-Nine Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	% of Sales	May 30, 2020	% of Sales
Net sales	\$ 745,760	100.0 %	\$ 594,355	100.0 %
Cost of goods sold	440,451	59.1 %	358,129	60.3 %
Gross profit	305,309	40.9 %	236,226	39.7 %
<b>Operating expenses:</b>				
Selling and marketing	82,171	11.0 %	69,985	11.8 %
General and administrative	77,645	10.4 %	74,961	12.6 %
Depreciation and amortization	12,643	1.7 %	10,988	1.8 %
Business transaction costs	—	— %	26,900	4.5 %
Total operating expenses	172,459	23.1 %	182,834	30.8 %
Income from operations	132,850	17.8 %	53,392	9.0 %
<b>Other income (expense):</b>				
Interest income	4	— %	1,493	0.3 %
Interest expense	(24,352)	(3.3)%	(23,882)	(4.0)%
(Loss) gain in fair value change of warrant liability	(60,714)	(8.1)%	82,655	13.9 %
Gain on legal settlement	5,000	0.7 %	—	— %
Gain (loss) on foreign currency transactions	712	0.1 %	(596)	(0.1)%
Other income	229	— %	104	— %
Total other (expense) income	(79,121)	(10.6)%	59,774	10.1 %
Income before income taxes	53,729	7.2 %	113,166	19.0 %
Income tax expense	31,095	4.2 %	8,238	1.4 %
Net income	\$ 22,634	3.0 %	\$ 104,928	17.7 %
<b>Other financial data:</b>				
Adjusted EBITDA <sup>(1)</sup>	\$ 158,800	21.3 %	\$ 116,889	19.7 %

<sup>(1)</sup> 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 \$745.8 million represented an increase of \$151.4 million, or 25.5%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The increase was primarily attributable to the Quest brand, which increased net sales by 22.8%, due to Quest’s partial inclusion in our results of operations in fiscal year 2020 as compared to fiscal year 2021 as well as post-acquisition Quest brand sales volume growth. These increases in net sales were partially offset by decreased sales volume of approximately 1.2% related to the SimplyProtein Sale and the restructuring-related business activities in Europe in fiscal year 2021.

**Cost of goods sold.** Cost of goods sold increased \$82.3 million, or 23.0%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The cost of goods sold increase was driven by sales volume growth primarily attributable to the Quest brand as discussed above, which was partially offset by the effect of the \$7.5 million non-cash inventory step-up related to the Acquisition of Quest recorded in fiscal year 2020.

**Gross profit.** Gross profit increased \$69.1 million, or 29.2%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. Gross profit of \$305.3 million, or 40.9% of net sales, for the thirty-nine weeks ended May 29, 2021 increased 120 basis points from 39.7% of net sales for the thirty-nine weeks ended May 30, 2020. The increase in gross margin was primarily the result of the \$7.5 million non-cash inventory step-up related to the Acquisition of Quest in fiscal year 2020.

**Operating expenses.** Operating expenses decreased \$10.4 million, or 5.7%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020 due to the following:

- **Selling and marketing.** Selling and marketing expenses increased \$12.2 million, or 17.4%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The increase was primarily related to Quest's partial inclusion in our results of operations in fiscal year 2020 as compared to fiscal year 2021, which was partially offset by decreased selling and marketing expenses related to the SimplyProtein Sale and the restructuring-related business activities in Europe.
- **General and administrative.** General and administrative expenses increased \$2.7 million, or 3.6%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The increase was primarily attributable to Quest's partial inclusion in our results of operations in fiscal year 2020 as compared to fiscal year 2021 as well as restructuring charges of \$4.0 million in fiscal year 2021. These increases were partially offset by the reductions in costs related to the integration of Quest and stock-based compensation.
- **Depreciation and amortization.** Depreciation and amortization expenses increased \$1.7 million, or 15.1%, for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The increase was primarily due to the partial inclusion of amortization expense related to intangible assets recognized as part of the Acquisition of Quest in fiscal year 2020 as compared to fiscal year 2021.
- **Business transaction costs.** Business transaction costs were \$26.9 million for the thirty-nine weeks ended May 30, 2020 and comprised expenses related to the Acquisition of Quest.

**Interest income.** Interest income decreased \$1.5 million for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020, primarily due to \$195.3 million of cash on hand being utilized for the Acquisition of Quest in the first quarter of fiscal year 2020 and lower market rates.

**Interest expense.** Interest expense increased \$0.5 million for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020, primarily due to the funding of the Term Facility in the amount of \$460.0 million to partially finance the Acquisition of Quest in the first quarter of fiscal 2020.

**(Loss) gain in fair value change of warrant liability.** A non-cash loss of \$60.7 million in fair value change of warrant liability was recorded for the thirty-nine weeks ended May 29, 2021 compared to a non-cash gain of \$82.7 million for the thirty-nine weeks ended May 30, 2020. The loss relates to changes in the valuation of warrant liabilities, primarily driven by changes in stock price and volatility.

**Gain on legal settlement.** The Company recorded a \$5.0 million gain on a legal settlement during the thirty-nine weeks ended May 29, 2021.

**Gain (loss) on foreign currency transactions.** A gain of \$0.7 million in foreign currency transactions was recorded for the thirty-nine weeks ended May 29, 2021 compared to a foreign currency loss of \$0.6 million for the thirty-nine weeks ended May 30, 2020. The change relates to changes in foreign currency rates related to international operations.

**Income tax expense.** Income tax expense increased \$22.9 million for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020. The increase in our income tax expense is primarily driven by higher income from operations, partially offset by permanent differences.

**Net income.** Net income was \$22.6 million for the thirty-nine weeks ended May 29, 2021 a decrease of \$82.3 million compared to net income of \$104.9 million for the thirty-nine weeks ended May 30, 2020. The decrease was primarily related to an increase in loss in fair value change of the warrant liability.

**Adjusted EBITDA.** Adjusted EBITDA increased \$41.9 million, or 35.9% for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020, driven primarily by the Acquisition of Quest. 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). Simply Good Foods 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: business transaction costs, stock-based compensation expense, inventory step-up, integration costs, restructuring costs, non-core legal costs, gain or loss in fair value change of warrant liability, gain or loss due to legal settlements, 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 Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in its industry. 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 tables below provide a reconciliation of EBITDA and Adjusted EBITDA to their most directly comparable GAAP measure, which is net income, for the thirteen and thirty-nine weeks ended May 29, 2021 and May 30, 2020:

(In thousands)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
Net income	\$ 5,895	\$ 48,112	\$ 22,634	\$ 104,928
Interest income	(1)	(29)	(4)	(1,493)
Interest expense	7,985	8,324	24,352	23,882
Income tax expense	15,408	6,045	31,095	8,238
Depreciation and amortization	4,487	4,488	13,508	11,607
EBITDA	33,774	66,940	91,585	147,162
Business transaction costs	—	47	—	26,900
Stock-based compensation expense	2,172	2,150	5,766	5,945
Inventory step-up	—	—	—	7,522
Integration of Quest	244	4,094	2,458	9,435
Restructuring	206	1,386	3,992	1,386
Non-core legal costs	—	48	—	603
Loss (gain) in fair value change of warrant liability	35,833	(31,703)	60,714	(82,655)
Gain on legal settlement	(5,000)	—	(5,000)	—
Other <sup>(1)</sup>	230	401	(715)	591
Adjusted EBITDA	\$ 67,459	\$ 43,363	\$ 158,800	\$ 116,889

<sup>(1)</sup> Other items consist principally of exchange impact of foreign currency transactions and other expenses.



## Liquidity and Capital Resources

### Overview

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

We had \$90.2 million in cash and cash equivalents as of May 29, 2021. 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.

### Debt and Credit Facilities

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

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

On November 7, 2019, we entered into an 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) and as of the Amendment No. 2 Effective Date (as defined in the Incremental Facility Amendment), the Initial Term Loans bear interest at a rate equal to, at our option, either LIBOR plus an applicable margin of 3.75% or a base rate plus an applicable margin of 2.75%. The Incremental Facility Amendment was executed to partially finance the Acquisition of Quest. No amounts under the Term Facility were repaid as a result of the execution of the Incremental Facility Amendment.

The Applicable Rate per annum applicable to the loans under the Credit Agreement Amendment is, with respect to any Initial Term Loan that is an ABR Loan (as defined in the Credit Agreement), 2.75% per annum, and with respect to any Initial Term Loan that is a Eurodollar Loan, 3.75% per annum. The incremental term loans will mature on the maturity date applicable to the Initial Term Loans, which is July 7, 2024.

The Credit Agreement contains certain financial and other covenants that limit our ability to, among other things, incur and/or undertake asset sales and other dispositions, liens, indebtedness, certain acquisitions and investments, consolidations, mergers, reorganizations and other fundamental changes, payment of dividends and other distributions to equity and warrant holders, and prepayments of material subordinated debt, in each case, subject to customary exceptions materially consistent with credit facilities of such type and size. The Revolving Credit Facility has a maximum total net leverage ratio equal to or less than 6.25:1.00 (with a reduction to 6.00:1.00 on and after the third anniversary of the closing date of the Credit Agreement) contingent on credit extensions in excess of 30% of the total amount of commitments available under the Revolving Credit Facility. Any failure to comply with the restrictions of the credit facilities may result in an event of default. We were in compliance with all financial covenants as of May 29, 2021 and August 29, 2020, respectively.

At May 29, 2021, the outstanding balance of the Term Facility was \$506.5 million. We are not required to make principal payments on the Term Facility over the twelve months following the period ended May 29, 2021. The outstanding balance of the Term Facility is due upon its maturity in July 2024. As of May 29, 2021, there were no amounts drawn against the Revolving Credit Facility.

## Public Equity Offering

On October 9, 2019, we completed an underwritten public offering of 13,379,205 shares of our common stock at a price to the public of \$26.35 per share. We paid underwriting discounts and commissions of \$0.19 per share resulting in net proceeds to us of \$26.16 per share, or approximately \$350.0 million (the "Offering"). We paid \$0.8 million for legal, accounting and registrations fees related to the Offering. The net proceeds were used to pay a portion of the purchase price and related fees and expenses for the Acquisition of Quest.

## Acquisition of Quest

On August 21, 2019, our wholly-owned subsidiary Simply Good Foods USA, Inc., formerly known as Atkins Nutritionals, Inc. ("Simply Good USA") entered into a Stock and Unit Purchase Agreement with VMG Voyage Holdings, LLC, VMG Tax-Exempt II, L.P., Voyage Employee Holdings, LLC, and other sellers, as defined in the Purchase Agreement, to acquire Quest, a healthy lifestyle food company. On November 7, 2019, pursuant to the Purchase Agreement, Simply Good USA completed the Acquisition of Quest, for a cash purchase price of approximately \$1.0 billion, subject to customary post-closing adjustments.

The Acquisition of Quest was funded through a combination of cash, equity and debt financing. Total consideration paid on the closing date was \$988.9 million. Cash sources of funding included \$195.3 million of cash on hand, net proceeds of approximately \$350.0 million from an underwritten public offering of common stock, and \$443.6 million in new term loan debt. In the third fiscal quarter of 2020, we received a post-closing release from escrow of approximately \$2.1 million related to net working capital adjustments, resulting in a total net consideration paid of \$986.8 million. For the thirteen and thirty-nine weeks ended May 30, 2020, we incurred no business transaction costs and \$26.9 million of business transaction costs, respectively.

## Private Warrants to Purchase Common Stock

The Company's private placement warrants to purchase 6,700,000 shares of the common stock remain outstanding, are held by Conyers Park Sponsor, LLC, a related party, and remain liability-classified. If all Private Warrants are exercised at the \$11.50 exercise price per warrant, our cash would increase by \$77.1 million.

## Cash Flows

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

	Thirty-Nine Weeks Ended	
	May 29, 2021	May 30, 2020
Net cash provided by operating activities	\$ 91,488	\$ 24,100
Net cash provided by (used in) investing activities	\$ 2,454	\$ (984,306)
Net cash (used in) provided by financing activities	\$ (99,889)	\$ 805,586

*Operating activities.* Our net cash provided by operating activities increased \$67.4 million to \$91.5 million for the thirty-nine weeks ended May 29, 2021 compared to cash provided by operating activities of \$24.1 million for the thirty-nine weeks ended May 30, 2020. The increase in cash provided by operating activities was primarily attributable to higher operating income driven by (i) the Quest® brand sales volume growth, which increased net sales by 22.8% due to Quest's partial inclusion in our results of operations in fiscal year 2020 as compared to fiscal year 2021, as well as post-acquisition Quest brand sales volume growth and (ii) significant reductions in cash outlays and changes in working capital related to the first quarter 2020 Acquisition of Quest, including decreases in business transaction costs of \$26.9 million and integration costs of \$7.0 million. These increases were partially offset by \$6.9 million of cash payments made for restructuring-related costs, predominately composed of termination benefits and severance payments, during the thirty-nine weeks ended May 29, 2021. Additionally, cash paid for taxes increased \$10.6 million for the thirty-nine weeks ended May 29, 2021 compared to the thirty-nine weeks ended May 30, 2020.

*Investing activities.* Our net cash provided by investing activities was \$2.5 million for the thirty-nine weeks ended May 29, 2021, which was primarily related to the \$5.8 million of cash proceeds received from the SimplyProtein Sale, partially offset by purchases of property and equipment of \$3.2 million. The net cash used in investing activities of \$984.3 million for the thirty-nine weeks ended May 30, 2020 was primarily related to the cash paid for the Acquisition of Quest, net of cash acquired, of \$982.1 million.

*Financing activities.* Our net cash used in financing activities was \$99.9 million for the thirty-nine weeks ended May 29, 2021 compared to net cash provided by financing activities of \$805.6 million for the thirty-nine weeks ended May 30, 2020. Net cash used in financing activities for the thirty-nine weeks ended May 29, 2021 primarily consisted of \$100.0 million in principal payments on the Term Facility. For the thirty-nine weeks ended May 30, 2020, net cash provided by financing activities included gross proceeds of \$352.5 million from the Offering partially offset by issuance costs of \$3.3 million, proceeds of \$460.0 million from the Term Facility

borrowing related to the Incremental Facility Amendment partially offset by issuance costs of \$8.2 million, and a \$21.0 million principal payment on the Term Facility.

### **Contractual Obligations**

Our contractual obligations are related to our Credit Agreement and our finance and operating leases. There have been no material changes to our contractual obligations from our Annual Report.

### **Off-Balance Sheet Arrangements**

As of May 29, 2021, we had no material off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, income or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **New Accounting Pronouncements**

For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, refer to our Annual Report on Form 10-K/A. Refer to Note 2 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 May 29, 2021. As the Company expects higher raw material and freight costs starting in the fiscal fourth quarter of 2021 and in fiscal year 2022, in June 2021 the Company's management notified the Company's customers of its plans to institute a price increase effective in September 2021, the first month of the Company's fiscal year 2022. As a result, the Company is assessing available alternatives to mitigate potential input cost inflation for fiscal year 2022. For a discussion of our market risks, see "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of our Annual Report on Form 10-K.

### **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.

As previously disclosed in our Annual Report on Form 10-K/A for the year ended August 29, 2020, we identified a material weakness in our internal controls over financial reporting related to inaccurate accounting for warrants issue in connection with our initial public offering and private placement. Notwithstanding this material weakness, management has concluded that our unaudited condensed consolidated financial statements included in the Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with GAAP for each of the periods presented therein.

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 May 29, 2021, 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 May 29, 2021 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 Amendment No. 1 to Form 10-K ("Form 10-K/A"), which could materially affect our business, financial condition, cash flows or future results. There have been no material changes in the risk factors included in our Form 10-K/A. The risks described in our Form 10-K/A 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**

<b>Exhibit No.</b>	<b>Document</b>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</a>
32.1	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

**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: July 8, 2021

Name: Timothy A. Matthews

Title: Vice President, Controller, and Chief Accounting Officer  
*(Principal Accounting Officer)*

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

I, Joseph E. Scalzo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Simply Good Foods Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 8, 2021

By: /s/ Joseph E. Scalzo

Name: Joseph E. Scalzo

Title: Chief Executive Officer, President and Director  
*(Principal Executive Officer)*





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

In connection with the Quarterly Report of The Simply Good Foods Company (the "Company") on Form 10-Q for the fiscal period ended May 29, 2021 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: July 8, 2021      By:      /s/ Joseph E. Scalzo  
Name:      \_\_\_\_\_  
            Joseph E. Scalzo  
Title:      Chief Executive Officer, President and Director  
            *(Principal Executive Officer)*

Date: July 8, 2021      By:      /s/ Todd E. Cunfer  
Name:      \_\_\_\_\_  
            Todd E. Cunfer  
Title:      Chief Financial Officer  
            *(Principal Financial Officer)*