

**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 July 1, 2017

or

☐

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

For the transition period from to .

Commission file number 001-32316

B&G FOODS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3918742

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

4 Gatehall Drive, Parsippany, New Jersey
(Address of principal executive offices)

07054
(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 ☐

(Do not check if a 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 August 4, 2017, the registrant had 66,496,333 shares of common stock, par value \$0.01 per share, issued and outstanding.

B&G Foods, Inc. and Subsidiaries
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	July 1, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,670	\$ 28,833
Trade accounts receivable, net	125,169	119,265
Inventories	420,356	356,590
Prepaid expenses and other current assets	25,071	26,399
Income tax receivable	9,069	10,787
Total current assets	631,335	541,874
Property, plant and equipment, net of accumulated depreciation of \$185,430 and \$169,474	258,333	245,344
Goodwill	615,770	614,278
Other intangibles, net	1,619,793	1,629,482
Other assets	3,715	4,625
Deferred income taxes	992	7,902
Total assets	<u>\$ 3,129,938</u>	<u>\$ 3,043,505</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 93,683	\$ 98,033
Accrued expenses	45,015	62,393
Current portion of long-term debt	—	10,515
Income tax payable	—	3,875
Dividends payable	30,920	30,879
Total current liabilities	169,618	205,695
Long-term debt	1,821,464	1,715,268
Other liabilities	22,692	21,405
Deferred income taxes	328,498	315,480
Total liabilities	2,342,272	2,257,848
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.01 par value per share. Authorized 125,000,000 shares; 66,496,333 and 66,406,314 shares issued and outstanding as of July 1, 2017 and December 31, 2016	665	664
Additional paid-in capital	327,143	387,699
Accumulated other comprehensive loss	(11,625)	(19,364)
Retained earnings	471,483	416,658
Total stockholders' equity	787,666	785,657
Total liabilities and stockholders' equity	<u>\$ 3,129,938</u>	<u>\$ 3,043,505</u>

See Notes to Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net sales	\$ 368,134	\$ 306,376	\$ 786,008	\$ 659,354
Cost of goods sold	257,119	196,661	548,207	433,724
Gross profit	111,015	109,715	237,801	225,630
Operating expenses:				
Selling, general and administrative expenses	49,591	33,886	103,225	73,524
Amortization expense	4,265	3,362	8,737	6,770
Impairment of intangible assets	—	5,405	—	5,405
Operating income	57,159	67,062	125,839	139,931
Other income and expenses:				
Interest expense, net	21,998	18,426	41,645	37,561
Loss on extinguishment of debt	1,045	—	1,163	2,836
Other income	(816)	(371)	(2,960)	(2,300)
Income before income tax expense	34,932	49,007	85,991	101,834
Income tax expense	12,871	18,756	31,166	38,387
Net income	\$ 22,061	\$ 30,251	\$ 54,825	\$ 63,447
Weighted average shares outstanding:				
Basic	66,482	62,646	66,478	60,823
Diluted	66,711	62,872	66,748	60,988
Basic and diluted earnings per share	\$ 0.33	\$ 0.48	\$ 0.82	\$ 1.04
Cash dividends declared per share	\$ 0.465	\$ 0.420	\$ 0.930	\$ 0.840

See Notes to Consolidated Financial Statements.

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

	<u>Thirteen Weeks Ended</u>		<u>Twenty-six Weeks Ended</u>	
	<u>July 1, 2017</u>	<u>July 2, 2016</u>	<u>July 1, 2017</u>	<u>July 2, 2016</u>
Net income	\$ 22,061	\$ 30,251	\$ 54,825	\$ 63,447
Other comprehensive income (loss):				
Foreign currency translation adjustments	3,411	(2,463)	7,637	(310)
Amortization of unrecognized prior service cost and pension deferrals, net of tax	51	89	102	178
Other comprehensive income (loss)	3,462	(2,374)	7,739	(132)
Comprehensive income	<u>\$ 25,523</u>	<u>\$ 27,877</u>	<u>\$ 62,564</u>	<u>\$ 63,315</u>

See Notes to Consolidated Financial Statements.

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

	Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016
Cash flows from operating activities:		
Net income	\$ 54,825	\$ 63,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,547	18,158
Amortization of deferred debt financing costs and bond discount	2,795	2,782
Deferred income taxes	19,992	35,667
Impairment of intangible assets		5,405
Loss on sale of assets	1,608	—
Write-off of property, plant, and equipment	105	—
Loss on disposal of inventory	—	791
Loss on extinguishment of debt	1,163	2,836
Share-based compensation expense	3,202	3,116
Excess tax benefits from share-based compensation	—	(343)
Changes in assets and liabilities, net of effects of businesses acquired:		
Trade accounts receivable	(5,750)	(1,156)
Inventories	(60,555)	50,668
Prepaid expenses and other current assets	2,122	41,830
Income tax receivable/payable	(2,699)	(8,536)
Other assets	1,073	(1,622)
Trade accounts payable	(5,274)	(11,706)
Accrued expenses	(18,617)	(1,129)
Other liabilities	1,287	465
Net cash provided by operating activities	<u>19,824</u>	<u>200,673</u>
Cash flows from investing activities:		
Capital expenditures	(26,871)	(13,184)
Proceeds from sale of assets	2,229	—
Payments for acquisition of businesses, net of cash acquired	(117)	—
Net cash used in investing activities	<u>(24,759)</u>	<u>(13,184)</u>
Cash flows from financing activities:		
Repayments of long-term debt	(233,640)	(150,000)
Proceeds from issuance of long-term debt	500,000	—
Repayments of borrowings under revolving credit facility	(221,000)	(50,000)
Borrowings under revolving credit facility	55,000	10,000
Proceeds from issuance of common stock, net	36	152,020
Dividends paid	(61,790)	(46,601)
Excess tax benefits from share-based compensation	—	343
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	(1,962)	(1,410)
Debt financing costs	(8,637)	—
Net cash provided by (used in) financing activities	<u>28,007</u>	<u>(85,648)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	<u>(235)</u>	<u>481</u>
Net increase in cash and cash equivalents	22,837	102,322
Cash and cash equivalents at beginning of period	28,833	5,246
Cash and cash equivalents at end of period	<u>\$ 51,670</u>	<u>\$ 107,568</u>
Supplemental disclosures of cash flow information:		
Cash interest payments	<u>\$ 34,674</u>	<u>\$ 35,646</u>
Cash income tax payments	<u>\$ 10,232</u>	<u>\$ 11,347</u>
Non-cash transactions:		
Dividends declared and not yet paid	<u>\$ 30,920</u>	<u>\$ 26,316</u>
Accruals related to purchases of property, plant and equipment	<u>\$ —</u>	<u>\$ 2,199</u>

See Notes to Consolidated Financial Statements.

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

(1) Nature of Operations

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

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

(2) Summary of Significant Accounting Policies

Fiscal Year

Typically, our fiscal quarters and fiscal year consist of 13 and 52 weeks, respectively, ending on the Saturday closest to December 31 in the case of our fiscal year and fourth fiscal quarter, and on the Saturday closest to the end of the corresponding calendar quarter in the case of our fiscal quarters. As a result, a 53rd week is added to our fiscal year every five or six years. In a 53-week fiscal year our fourth fiscal quarter contains 14 weeks. Our fiscal year ending December 30, 2017 (fiscal 2017) and our fiscal year ended December 31, 2016 (fiscal 2016) each contain 52 weeks. Each quarter of fiscal 2017 and 2016 contains 13 weeks.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements for the thirteen and twenty-six week periods ended July 1, 2017 (second quarter and first two quarters of 2017) and July 2, 2016 (second quarter and first two quarters of 2016) have been prepared by our company in accordance with accounting principles generally accepted in the United States of America pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), and include the accounts of B&G Foods, Inc. and its subsidiaries. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. However, our management believes, to the best of their knowledge, that the disclosures herein are adequate to make the information presented not misleading. All intercompany balances and transactions have been eliminated. The accompanying unaudited consolidated interim financial statements contain all adjustments that are, in the opinion of management, necessary to present fairly our consolidated financial position as of July 1, 2017, and the results of our operations, comprehensive income and cash flows for the second quarter and first two quarters of 2017 and 2016. Our results of operations for the second quarter and first two quarters of 2017 are not necessarily indicative of the results to be expected for the full year. We have evaluated subsequent events for disclosure through the date of issuance of the accompanying unaudited consolidated interim financial statements. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for fiscal 2016 filed with the SEC on March 1, 2017. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

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

Newly Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standards update (ASU) that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires that excess tax benefits (which represent the excess of actual tax benefits received at the date of vesting or settlement over the benefits recognized over the vesting period or upon issuance of share-based payments) and tax deficiencies (which represent the amount by which actual tax benefits received at the date of vesting or settlement is lower than the benefits recognized over the vesting period or upon issuance of share-based payments) be recorded in the income statement as a reduction of income taxes when the awards vest or are settled. The new guidance also requires excess tax benefits to be classified as an operating activity in the statement of cash flows rather than as a financing activity. We adopted the provisions of this ASU at the beginning of fiscal 2017 and applied the required changes in accounting principle on a prospective basis. As a result of this adoption, we recognized discrete tax benefits of \$0.8 million in the income taxes line item of our consolidated statement of operations for the first two quarters of 2017 related to excess tax benefits upon vesting or settlement in that period. We elected to adopt the cash flow presentation of the excess tax benefits prospectively, commencing with our statement of cash flows for the first quarter of 2017, where these benefits are classified along with other income tax cash flows as an operating activity. We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the first two quarters of 2017.

In November 2015, the FASB issued a new ASU that requires deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. The ASU is effective beginning with the first quarter of fiscal 2017. We adopted the provisions of this ASU at the beginning of fiscal 2017 and applied the required changes in accounting principle on a retrospective basis. Accordingly, in our consolidated balance sheet as of December 31, 2016, \$7.9 million of deferred tax assets were reclassified from current assets to noncurrent assets. The update impacted presentation and disclosure only, and therefore, the adoption of this ASU did not have any impact on our results of operations or liquidity.

In July 2015, the FASB issued a new ASU that simplifies the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. We adopted the provisions of this ASU at the beginning of fiscal 2017. The adoption of this ASU did not have any impact on our consolidated financial position, results of operations or liquidity.

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

(2) Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

In March 2017, the FASB issued a new ASU that improves the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance revises how employers that sponsor defined benefit pension and other postretirement plans present the net periodic benefit cost in their income statement and requires that the service cost component of net periodic benefit cost be presented in the same income statement line items as other employee compensation costs from services rendered during the period. The update is effective beginning with the first quarter of fiscal 2019. We have not yet determined the impact from adoption of the ASU on our financial statements.

In January 2017, the FASB issued a new ASU which clarifies the definition of a business. The new guidance changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The update is effective beginning with the first quarter of 2018. We have not yet determined the impact from adoption of the ASU on our financial statements.

In January 2017, the FASB issued a new ASU that simplifies the subsequent measurement of goodwill, including the elimination of the second step from the goodwill impairment test. The update is effective for annual or any interim impairment tests in fiscal 2020 or later. The adoption of this ASU will not have any impact on our consolidated financial position, results of operations or liquidity.

In fiscal 2016, the FASB issued several new ASUs that provide for improvements to the revenue recognition accounting standard, including principal versus agent considerations, identifying performance obligations, licensing, narrow-scope improvements and practical expedients. The updates are effective beginning with the first quarter of fiscal 2018. In preparation for our adoption of the new standard, we are obtaining representative samples of contracts and other forms of agreements with our customers in the U.S. and international locations and plan to evaluate the provisions contained therein in light of the five-step model specified by the new guidance. That five-step model includes: (1) determination of whether a contract—an agreement between two or more parties that creates legally enforceable rights and obligations exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied. We are also evaluating the impact of the new standard on certain common practices currently employed by us and by other manufacturers of consumer products, such as slotting fees, co-operative advertising, rebates and other pricing allowances, merchandising funds and consumer coupons. We have not yet determined the impact of the ASU on our financial statements or whether we will adopt on a prospective or retrospective basis in the first quarter of fiscal 2018.

In February 2016, the FASB issued a new ASU that requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under current guidance. The update is effective beginning with the first quarter of fiscal 2019. We have not yet determined the impact from adoption of the ASU on our financial statements.

(3) Acquisitions

On December 2, 2016, we acquired Victoria Fine Foods, LLC, and a related entity, from Huron Capital Partners and certain other sellers for a purchase price of \$72.0 million in cash. We refer to this acquisition as the “*Victoria* acquisition.”

On November 21, 2016, we completed the acquisition of the spices & seasonings business of ACH Food Companies, Inc. for a purchase price of \$366.9 million. We refer to this acquisition as the “spices & seasonings acquisition.” In connection with the acquisition, as of July 1, 2017, we had receivables related to a transition services agreement with ACH Food Companies of \$2.0 million included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. As of December 31, 2016, we had payables related to the transition services agreement of \$12.6 million included in accrued expenses in the accompanying consolidated balance sheets.

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

(3) Acquisitions (Continued)

We have accounted for each of these acquisitions using the acquisition method of accounting and, accordingly, have included the assets acquired, liabilities assumed and results of operations in our consolidated financial statements from the respective date of acquisition. The excess of the purchase price over the fair value of identifiable net assets acquired represents goodwill. Unamortizable trademarks are deemed to have an indefinite useful life and are not amortized. Customer relationship intangibles and amortizable trademarks acquired are amortized over 10 to 20 years. Goodwill and other intangible assets, except in the case of the *Victoria* acquisition, are deductible for income tax purposes. Inventory has been recorded at estimated selling price less costs of disposal and a reasonable selling profit and the property, plant and equipment and other intangible assets (including trademarks, customer relationships and other intangibles) acquired have been recorded at fair value as determined by our management with the assistance of a third-party valuation specialist. See Note 5, "Goodwill and Other Intangible Assets."

The following table sets forth the preliminary allocation of the *Victoria* acquisition purchase price to the estimated fair value of the net assets acquired at the date of acquisition. The preliminary purchase price allocation may be adjusted as a result of the finalization of our purchase price allocation procedures related to the assets acquired and liabilities assumed. We anticipate completing the purchase price allocation before or during the fourth quarter of fiscal 2017.

Victoria Acquisition (dollars in thousands):

Purchase Price:	
Cash paid	\$ 71,972
Total	<u>\$ 71,972</u>
Preliminary Allocation:	
Trademarks—unamortizable intangible assets	45,500
Goodwill	12,745
Property, plant and equipment	9,298
Inventory	5,729
Customer relationship intangibles—amortizable intangible assets	6,400
Long-term deferred income tax liabilities, net	(5,653)
Other working capital	(2,047)
Total	<u>\$ 71,972</u>

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

(3) Acquisitions (Continued)

The following table sets forth the preliminary allocation of the spices & seasonings acquisition purchase price to the estimated fair value of the net assets acquired at the date of acquisition. The preliminary purchase price allocation may be adjusted as a result of the finalization of our purchase price allocation procedures related to the assets acquired and liabilities assumed. We anticipate completing the purchase price allocation before or during the fourth quarter of fiscal 2017.

Spices & Seasonings Acquisition (dollars in thousands):

Purchase Price:	
Cash paid	\$ 366,932
Total	<u>\$ 366,932</u>
Preliminary Allocation:	
Goodwill	120,108
Customer relationship intangibles—amortizable intangible assets	89,250
Trademarks—unamortizable intangible assets	65,200
Property, plant and equipment	62,193
Inventory	49,571
Other liabilities	(17,502) ⁽¹⁾
Other working capital	(1,888)
Total	<u>\$ 366,932</u>

- (1) In connection with the spices & seasonings acquisition, we agreed to establish a defined benefit plan for certain employees transferred to B&G Foods and certain former employees of the acquired spices & seasonings business. We also agreed to assume certain liabilities relating to the underfunded status of the former plan that such employees participated in prior to the acquisition. At July 1, 2017 and December 31, 2016, we recognized \$18.4 million and \$17.5 million, respectively, in “other liabilities” in the accompanying consolidated balance sheet to reflect our obligations with respect to the underfunded status of the defined benefit plan assets and liabilities transferred to us.

Unaudited Pro Forma Summary of Operations

The following pro forma summary of operations for the second quarter and first two quarters of 2016 presents our operations as if the spices & seasonings acquisition had occurred as of the beginning of fiscal 2016. In addition to including the results of operations of this acquisition, the pro forma information gives effect to the interest on additional borrowings and the amortization of customer relationship intangibles. On an actual basis, the spices & seasonings business contributed \$67.4 million and \$130.6 million, respectively, of consolidated net sales for the second quarter and first two quarters of 2017.

	Thirteen Weeks Ended	Twenty-six Weeks Ended
	July 2, 2016	July 2, 2016
	(dollars in thousands, except per share data)	
Net sales	\$ 365,818	\$ 778,238
Net income	\$ 38,284	\$ 75,588
Basic earnings per share	\$ 0.58	\$ 1.19
Diluted earnings per share	\$ 0.58	\$ 1.18

The pro forma information presented above does not purport to be indicative of the results that actually would have been attained had the spices & seasonings acquisition occurred as of the beginning of fiscal 2016, and is not intended to be a projection of future results.

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

(3) Acquisitions (Continued)

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

(4) Inventories

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

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

	July 1, 2017	December 31, 2016
Raw materials and packaging	\$ 82,111	\$ 60,532
Work-in-process	58,294	98,664
Finished goods	279,951	197,394
Total	<u>\$ 420,356</u>	<u>\$ 356,590</u>

(5) Goodwill and Other Intangible Assets

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

	July 1, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Amortizable Intangible Assets</i>						
Trademarks	\$ 6,800	\$ 1,889	\$ 4,911	\$ 6,800	\$ 1,662	\$ 5,138
Customer relationships	330,290	89,209	241,081	330,290	80,847	249,443
Seed technology ⁽¹⁾	—	—	—	2,000	900	1,100
	<u>\$ 337,090</u>	<u>\$ 91,098</u>	<u>\$ 245,992</u>	<u>\$ 339,090</u>	<u>\$ 83,409</u>	<u>\$ 255,681</u>
<i>Unamortizable Intangible Assets</i>						
Goodwill	<u>\$ 615,770</u>			<u>\$ 614,278</u>		
Trademarks	<u>\$ 1,373,801</u>			<u>\$ 1,373,801</u>		

- (1) During the first quarter of 2017, we sold to a third-party co-packer our Le Sueur, Minnesota research center, including the seed technology assets and property, plant and equipment, that we acquired in 2015 as part of the *Green Giant* acquisition, resulting in a \$1.6 million loss on sale of assets.

Amortization expense associated with amortizable intangible assets for the second quarter and first two quarters of 2017 was \$4.3 million and \$8.7 million, respectively, and is recorded in operating expenses. Amortization expense associated with amortizable intangible assets for the second quarter and first two quarters of 2016 was \$3.4 million and \$6.8 million, respectively. We expect to recognize an additional \$8.6 million of amortization expense associated with our amortizable intangible assets during the remainder of fiscal 2017, and thereafter \$17.1 million of amortization expense in each of the fiscal years 2018 through 2021. See Note 3, "Acquisitions."

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(6) Long-Term Debt

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

	July 1, 2017	December 31, 2016
Revolving credit loans	\$ 10,000	\$ 176,000
Tranche A term loans due 2019	—	233,640
Tranche B term loans due 2022	640,110	640,110
4.625% senior notes due 2021	700,000	700,000
5.25% senior notes due 2025	500,000	—
Unamortized deferred financing costs	(26,150)	(20,986)
Unamortized discount	(2,496)	(2,981)
Total long-term debt, net of unamortized deferred financing costs and discount	1,821,464	1,725,783
Current portion of long-term debt	—	(10,515)
Long-term debt, net of unamortized deferred financing costs and discount, and excluding current portion	<u>\$ 1,821,464</u>	<u>\$ 1,715,268</u>

As of July 1, 2017, the aggregate contractual maturities of long-term debt are as follows (in thousands):

Years ending December:	
2017	\$ —
2018	—
2019	10,000
2020	—
2021	700,000
Thereafter	1,140,110
Total	<u>\$ 1,850,110</u>

Senior Secured Credit Agreement. On March 30, 2017, we refinanced our senior secured credit facility. The refinancing reduced by 0.75% the spread over LIBOR or the applicable base rate on \$640.1 million of tranche B term loans.

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

At July 1, 2017, \$640.1 million of tranche B term loans and \$10.0 million of revolving loans were outstanding under our credit agreement.

At July 1, 2017, the available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2.0 million, was \$488.0 million. Proceeds of the revolving credit facility may be used for general corporate purposes, including acquisitions of targets in the same or a similar line of business as our company, subject to specified criteria. We are required to pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. The maximum letter of credit capacity under the revolving credit facility is \$50.0 million, with a fronting fee of 0.25% per annum for all outstanding letters of credit and a letter of credit fee equal to the applicable margin for revolving loans that are Eurodollar (LIBOR) loans. The revolving credit facility matures on June 5, 2019.

The entire \$640.1 million principal amount of tranche B term loans outstanding are due and payable at maturity on November 2, 2022.

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

(6) Long-Term Debt (Continued)

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

Interest under the revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin ranging from 0.50% to 1.00%, and LIBOR plus an applicable margin ranging from 1.50% to 2.00%, in each case depending on our consolidated leverage ratio. At July 1, 2017, the revolving credit facility interest rate was approximately 3.21%.

Interest under the tranche B term loan facility is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin of 1.25%, and LIBOR plus an applicable margin of 2.25%. At July 1, 2017, the tranche B term loan interest rate was approximately 3.48%.

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

The credit agreement also contains certain financial maintenance covenants, which, among other things, specify a maximum consolidated leverage ratio and a minimum interest coverage ratio, each ratio as defined in the credit agreement. Our consolidated leverage ratio (defined as the ratio of our consolidated net debt, as of the last day of any period of four consecutive fiscal quarters to our adjusted EBITDA for such period), may not exceed 6.50 to 1.00. We are also required to maintain a consolidated interest coverage ratio of at least 1.75 to 1.00 as of the last day of any period of four consecutive fiscal quarters. As of July 1, 2017, we were in compliance with all of the covenants, including the financial covenants, in the credit agreement.

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

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

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

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

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

(6) Long-Term Debt (Continued)

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

The indenture governing the 4.625% senior notes contains covenants with respect to us and the guarantors and restricts the incurrence of additional indebtedness and the issuance of capital stock; the payment of dividends or distributions on, and redemption of, capital stock; a number of other restricted payments, including certain investments; creation of specified liens, certain sale-leaseback transactions and sales of certain specified assets; fundamental changes, including consolidation, mergers and transfers of all or substantially all of our assets; and specified transactions with affiliates. Each of the covenants is subject to a number of important exceptions and qualifications. As of July 1, 2017, we were in compliance with all of the covenants in the indenture governing the 4.625% senior notes.

5.25% Senior Notes due 2025. On April 3, 2017, we issued \$500.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public of 100% of their face value. We used the net proceeds of the offering to repay all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans, and to pay related fees and expenses. We intend to use the remaining net proceeds for general corporate purposes, which could include, among other things, repayment of other long term debt or possible acquisitions.

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

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

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

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

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

(6) Long-Term Debt (Continued)

Subsidiary Guarantees. We have no assets or operations independent of our direct and indirect subsidiaries. All of our present domestic subsidiaries jointly and severally and fully and unconditionally guarantee our long-term debt. There are no significant restrictions on our ability and the ability of our subsidiaries to obtain funds from our respective subsidiaries by dividend or loan. See Note 15, “Guarantor and Non-Guarantor Financial Information.”

Accrued Interest. At July 1, 2017 and December 31, 2016, accrued interest of \$9.2 million and \$5.0 million, respectively, is included in accrued expenses in the accompanying unaudited consolidated balance sheets.

Deferred Debt Financing Costs. During the second quarter and first two quarters of 2017, we capitalized \$6.0 million and \$7.4 million, respectively, of debt financing costs relating to our issuance of the 5.25% senior notes and during the first two quarters of 2017 we capitalized \$1.2 million of debt financing costs relating to the refinancing of our tranche B term loans.

Loss on Extinguishment of Debt. During the second quarter of 2017, the repayment of all outstanding borrowings under the tranche A term loans resulted in a loss on extinguishment of debt, which includes the write-off of deferred debt financing costs of \$0.9 million and the write-off of unamortized discount of \$0.2 million. During the first quarter of 2017, we incurred a loss on extinguishment of debt in connection with the refinancing of our tranche B term loans, which includes the write-off of deferred debt financing costs and the write-off of unamortized discount of less than \$0.1 million. During the first quarter of 2016, we incurred a loss on extinguishment of debt in connection with the repayment of \$40.1 million aggregate principal amount of our tranche A term loans and \$109.9 million aggregate principal amount of our tranche B term loans. The loss on extinguishment includes the write-off of deferred debt financing costs of \$2.2 million and the write-off of unamortized discount of \$0.6 million.

(7) Fair Value Measurements

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

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

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

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

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

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

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

(7) Fair Value Measurements (Continued)

The carrying values and fair values of our revolving credit loans, term loans and senior notes as of July 1, 2017 and December 31, 2016 are as follows (in thousands):

	July 1, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit loans	10,000	10,000 ⁽¹⁾	176,000	176,000 ⁽¹⁾
Tranche A term loans due 2019	—	—	233,378 ⁽²⁾	232,795 ⁽¹⁾
Tranche B term loans due 2022	637,614 ⁽³⁾	640,802 ⁽¹⁾	637,391 ⁽³⁾	645,358 ⁽¹⁾
4.625% senior notes due 2021	700,000	711,375 ⁽⁴⁾	700,000	714,000 ⁽⁴⁾
5.25% senior notes due 2025	500,000	510,000 ⁽⁴⁾	—	—

- (1) Fair values are estimated based on Level 2 inputs, which were quoted prices for identical or similar instruments in markets that are not active.
- (2) The carrying values of the tranche A term loans are net of discount. On April 3, 2017, we repaid all of the outstanding borrowings and amounts due under our tranche A term loans. At December 31, 2016, the face amounts of the tranche A term loans were \$233.6 million.
- (3) The carrying values of the tranche B term loans are net of discount. At July 1, 2017 and December 31, 2016, the face amounts of the tranche B term loans were \$640.1 million.
- (4) Fair values are estimated based on quoted market prices.

There was no Level 3 activity during the second quarter or first two quarters of 2017 or 2016.

(8) Accumulated Other Comprehensive Loss

The reclassifications from accumulated other comprehensive loss (AOCL) for the second quarter and first two quarters of 2017 and 2016 are as follows (in thousands):

Details about AOCL Components	Amounts Reclassified from AOCL		Twenty-six Weeks Ended		Affected Line Item in the Statement Where Net Income is Presented
	Thirteen Weeks Ended				
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016	
Defined benefit pension plan items					
Amortization of unrecognized prior service cost	\$ 9	\$ 11	\$ 18	\$ 22	See (1) below
Amortization of unrecognized loss	73	132	146	264	See (1) below
	82	143	164	286	Total before tax
	(31)	(54)	(62)	(108)	Income tax expense
Total reclassification	\$ 51	\$ 89	\$ 102	\$ 178	Net of tax

- (1) These items are included in the computation of net periodic pension cost. See Note 9, "Pension Benefits" for additional information.

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

(8) Accumulated Other Comprehensive Loss (Continued)

Changes in AOCL for the first two quarters of 2017 are as follows (in thousands):

	Defined Benefit Pension Plan Items	Foreign Currency Translation Adjustments	Total
Beginning balance	\$ (7,200)	\$ (12,164)	\$ (19,364)
Other comprehensive income before reclassifications	—	7,637	7,637
Amounts reclassified from AOCL	102	—	102
Net current period other comprehensive income	102	7,637	7,739
Ending balance	<u>\$ (7,098)</u>	<u>\$ (4,527)</u>	<u>\$ (11,625)</u>

(9) Pension Benefits

Company Sponsored Defined Benefit Pension Plans. Net periodic pension cost for company sponsored defined benefit pension plans for the second quarter and first two quarters of 2017 and 2016 includes the following components (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Service cost—benefits earned during the period	\$ 1,370	\$ 872	\$ 2,740	\$ 1,745
Interest cost on projected benefit obligation	1,215	692	2,430	1,384
Expected return on plan assets	(1,750)	(1,095)	(3,500)	(2,191)
Amortization of unrecognized prior service cost	9	11	18	22
Amortization of unrecognized loss	73	132	146	264
Net periodic pension cost	<u>\$ 917</u>	<u>\$ 612</u>	<u>\$ 1,834</u>	<u>\$ 1,224</u>

During the first two quarters of 2017, we did not make any defined benefit pension plan contributions. We plan to make approximately \$3.5 million of contributions during the remainder of fiscal 2017.

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

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

B&G Foods made contributions to the plan of \$0.4 million in the first two quarters of 2017 and expects to pay surcharges of less than \$0.1 million in fiscal 2017 assuming consistent hours are worked. B&G Foods contributed \$0.8 million in fiscal 2016 and paid less than \$0.1 million in surcharges. These contributions represented less than five percent of total contributions made to the plan.

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Notes to Consolidated Financial Statements (Continued)
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(10) Commitments and Contingencies

Operating Leases. As of July 1, 2017, future minimum lease payments under non-cancelable operating leases in effect at quarter-end (with initial or remaining lease terms in excess of one year) for the periods set forth below were as follows (in thousands):

Fiscal year ending:	
2017	\$ 5,560
2018	9,623
2019	8,530
2020	8,160
2021	6,105
Thereafter	8,060
Total	<u>\$ 46,038</u>

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

Environmental. We are subject to environmental laws and regulations in the normal course of business. We did not make any material expenditures during the first two quarters of 2017 or 2016 in order to comply with environmental laws and regulations. Based on our experience to date, management believes that the future cost of compliance with existing environmental laws and regulations (and liability for any known environmental conditions) will not have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, we cannot predict what environmental or health and safety legislation or regulations will be enacted in the future or how existing or future laws or regulations will be enforced, administered or interpreted, nor can we predict the amount of future expenditures that may be required in order to comply with such environmental or health and safety laws or regulations or to respond to such environmental claims.

Collective Bargaining Agreements. As of July 1, 2017, approximately 1,549 of our 2,551 employees, or 60.7%, were covered by collective bargaining agreements. None of our collective bargaining agreements is scheduled to expire within one year.

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

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(11) Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding plus all additional shares of common stock that would have been outstanding if potentially dilutive shares of common stock had been issued upon the exercise of stock options or in connection with performance shares that may be earned under long-term incentive awards as of the grant date, in the case of the stock options, and as of the beginning of the period, in the case of the performance shares, using the treasury stock method. For the second quarter of 2017 there were 173,357 and for the second quarter of 2016 there were 22,692 shares of common stock issuable upon the exercise of stock options excluded from the calculation of diluted weighted average shares outstanding because the effect would have been anti-dilutive on diluted earnings per share.

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Weighted average shares outstanding:				
Basic	66,481,507	62,645,894	66,477,990	60,823,288
Net effect of potentially dilutive share-based compensation awards	229,812	225,985	269,814	164,326
Diluted	<u>66,711,319</u>	<u>62,871,879</u>	<u>66,747,804</u>	<u>60,987,614</u>

(12) Business and Credit Concentrations and Geographic Information

Our exposure to credit loss in the event of non-payment of accounts receivable by customers is estimated in the amount of the allowance for doubtful accounts. We perform ongoing credit evaluations of the financial condition of our customers. Our top ten customers accounted for approximately 54.9% and 56.9% of consolidated net sales for the first two quarters of 2017 and 2016, respectively. Our top ten customers accounted for approximately 55.2% and 53.4% of our consolidated trade accounts receivables as of July 1, 2017 and December 31, 2016, respectively. Other than Wal-Mart, which accounted for 22.7% and 25.8% of our consolidated net sales for the first two quarters of 2017 and 2016, respectively, no single customer accounted for more than 10.0% of our consolidated net sales for the first two quarters of 2017 or 2016. Other than Wal-Mart, which accounted for 21.8% and 21.2% of our consolidated trade accounts receivables as of July 1, 2017 and December 31, 2016, respectively, no single customer accounted for more than 10.0% of our consolidated trade accounts receivables. As of July 1, 2017, we do not believe we have any significant concentration of credit risk with respect to our consolidated trade accounts receivable with any single customer whose failure or nonperformance would materially affect our results other than as described above with respect to Wal-Mart.

During the first two quarters of 2017 and 2016, our sales to customers in foreign countries represented approximately 7.1% and 8.4%, respectively, of net sales. Our foreign sales are primarily to customers in Canada.

(13) Share-Based Payments

Our company makes annual grants of stock options and performance share long-term incentive awards (LTIs) to our executive officers and certain other members of senior management. The performance share LTIs entitle the participants to earn shares of common stock upon the attainment of certain performance goals. In addition, our non-employee directors receive annual equity grants as part of their non-employee director compensation and may elect to receive a portion of their annual cash retainer in stock options.

B&G Foods, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(13) Share-Based Payments (Continued)

The following table details our stock option activity for the first two quarters of fiscal 2017 (dollars in thousands, except per share data):

	Options	Weighted Average Exercise Price	Weighted Average Contractual Life Remaining (Years)	Aggregate Intrinsic Value
Outstanding at beginning of fiscal 2017	714,580	\$ 31.65		
Granted	154,867	\$ 41.47		
Exercised	(1,300)	\$ 27.77		
Forfeited	(29,189)	\$ 32.24		
Outstanding at end of second quarter of 2017	838,958	\$ 33.44	8.17	\$ 2,900
Exercisable at end of second quarter of 2017	24,396	\$ 42.62	8.86	\$ 9

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

	2017	2016
Weighted average grant date fair value	\$ 7.35	\$ 5.26
Expected volatility	27.5% - 29.2%	27.7%
Expected term	5.5 - 6.5 years	5.5 - 6.5 years
Risk-free interest rate	1.8% - 2.4%	1.5% - 1.7%
Dividend yield	4.5% - 4.6%	3.9% - 4.9%

The following table sets forth the compensation expense recognized for share-based payments (performance share LTIA's, stock options, non-employee director stock grants and other share based payments) during the second quarter and first two quarters of 2017 and 2016 and where that expense is reflected in our consolidated statements of operations (in thousands):

Consolidated Statements of Operations Location	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Compensation expense included in cost of goods sold	\$ 250	\$ 281	\$ 472	\$ 512
Compensation expense included in selling, general and administrative expenses	1,809	1,737	2,730	2,604
Total compensation expense for share-based payments	\$ 2,059	\$ 2,018	\$ 3,202	\$ 3,116

As of July 1, 2017, there was \$3.8 million of unrecognized compensation expense related to performance share LTIA's, which is expected to be recognized over the next 2.5 years and \$1.9 million of unrecognized compensation expense related to stock options, which is expected to be recognized over the next 2.75 years.

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Notes to Consolidated Financial Statements (Continued)
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(13) Share-Based Payments (Continued)

The following table details the activity in our non-vested performance share LTIsAs for the first two quarters of 2017:

	Number of Performance Shares	Weighted Average Grant Date Fair Value (per share) ⁽¹⁾
Beginning of fiscal 2017	436,554	\$ 26.81
Granted	132,000	\$ 36.15
Vested	(110,528)	\$ 27.50
Forfeited	(14,779)	\$ 28.00
End of second quarter of 2017	443,247	\$ 29.37

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

The following table details the number of shares of common stock issued by our company during the second quarter and first two quarters of 2017 and 2016 upon the vesting of performance share LTIsAs, the exercise of stock options and other share based payments (dollars in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Number of performance shares vested	—	—	110,528	101,094
Shares withheld to fund statutory minimum tax withholding	—	—	42,368	37,596
Shares of common stock issued for performance share LTIsAs	—	—	68,160	63,498
Shares of common stock issued upon the exercise of stock options	1,300	—	1,300	—
Shares of common stock issued to non-employee directors for annual equity grants	20,559	16,072	20,559	16,072
Total shares of common stock issued	21,859	16,072	90,019	79,570
Excess tax (deficiency) benefit	\$ (6)	\$ —	\$ 820 ⁽¹⁾	\$ 343

- (1) As a result of the adoption of ASU 2016-09, we recognized discrete tax benefits of \$0.8 million in the income taxes line item of our consolidated statement of operations for the first two quarters of 2017 related to excess tax benefits upon vesting or settlement in that period. See Note 2, "Summary of Significant Accounting Policies— *Newly Adopted Accounting Standards*."

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

(14) Net Sales by Brand

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Brand: ⁽¹⁾				
<i>Green Giant</i>	\$ 105,204	\$ 107,217	\$ 230,653	\$ 237,377
<i>Ortega</i>	34,824	35,153	71,968	71,619
<i>Tone's</i> ⁽²⁾	19,979	—	48,643	—
<i>Pirate Brands</i>	17,053	20,413	42,940	44,494
<i>Maple Grove Farms of Vermont</i>	16,348	18,607	35,111	37,323
<i>Mrs. Dash</i>	14,812	15,864	31,741	32,592
<i>Cream of Wheat</i>	12,255	12,387	29,057	29,482
<i>Weber</i> ⁽²⁾	14,491	—	22,546	—
<i>Victoria</i> ⁽³⁾	9,679	—	20,365	—
<i>Polaner</i>	8,471	8,847	17,556	17,552
<i>Las Palmas</i>	8,504	8,340	17,449	18,104
<i>Mama Mary's</i>	7,392	8,898	17,167	19,378
<i>Bear Creek Country Kitchens</i>	4,451	5,386	16,677	18,978
<i>New York Style</i>	8,254	8,304	16,550	16,479
All other brands ⁽⁴⁾	86,417	56,960	167,585	115,976
Total	\$ 368,134	\$ 306,376	\$ 786,008	\$ 659,354

- (1) Table includes net sales for each of our brands whose first two quarters of 2017 or fiscal 2016 net sales were equal to or exceeded 2% of our total first two quarters of 2017 or fiscal 2016 net sales and for “all other brands” in the aggregate. Net sales for each brand includes branded net sales and, if applicable, any private label and foodservice net sales attributable to the brand.
- (2) We acquired the *Tone's* and *Weber* brands on November 21, 2016 as part of the spices & seasonings acquisition.
- (3) We completed the *Victoria* acquisition on December 2, 2016.
- (4) Net sales for “all other brands” for the second quarter and first two quarters of 2017 has been impacted by the acquisition of the *Spice Islands*, *Durkee* and certain other brands acquired as part of the spices & seasonings acquisition, which was completed on November 21, 2016.

(15) Guarantor and Non-Guarantor Financial Information

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

The following condensed consolidating financial information presents the condensed consolidating balance sheet as of July 1, 2017 and December 31, 2016, the related condensed consolidating statement of operations for the thirteen weeks and twenty-six weeks ended July 1, 2017, and the related condensed consolidating statement of cash flows for the twenty-six weeks ended July 1, 2017 for:

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

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

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

Condensed Consolidating Balance Sheet
As of July 1, 2017
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 50,208	\$ 1,462	\$ —	\$ 51,670
Trade accounts receivable, net	—	120,180	4,989	—	125,169
Inventories, net	—	368,058	52,298	—	420,356
Prepaid expenses and other current assets	—	20,759	4,312	—	25,071
Income tax receivable	—	7,479	1,590	—	9,069
Intercompany receivables	—	—	—	—	—
Total current assets	—	566,684	64,651	—	631,335
Property, plant and equipment, net	—	214,690	43,643	—	258,333
Goodwill	—	615,770	—	—	615,770
Other intangibles, net	—	1,619,793	—	—	1,619,793
Other assets	—	3,701	14	—	3,715
Deferred income taxes	—	—	992	—	992
Investments in subsidiaries	2,666,200	84,815	—	(2,751,015)	—
Total assets	<u>\$2,666,200</u>	<u>\$ 3,105,453</u>	<u>\$ 109,300</u>	<u>\$ (2,751,015)</u>	<u>\$ 3,129,938</u>
Liabilities and Stockholders' Equity					
Current Liabilities:					
Trade accounts payable	\$ —	\$ 75,270	\$ 18,413	\$ —	\$ 93,683
Accrued expenses	—	41,965	3,050	—	45,015
Current portion of long-term debt	—	—	—	—	—
Income tax payable	—	—	—	—	—
Dividends payable	30,920	—	—	—	30,920
Intercompany payables	—	(3,022)	3,022	—	—
Total current liabilities	30,920	114,213	24,485	—	169,618
Long-term debt	1,847,614	(26,150)	—	—	1,821,464
Other liabilities	—	22,692	—	—	22,692
Deferred income taxes	—	328,498	—	—	328,498
Total liabilities	1,878,534	439,253	24,485	—	2,342,272
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	665	—	—	—	665
Additional paid-in capital	327,143	2,208,567	68,253	(2,276,820)	327,143
Accumulated other comprehensive loss	(11,625)	(11,625)	(4,526)	16,151	(11,625)
Retained earnings	471,483	469,258	21,088	(490,346)	471,483
Total stockholders' equity	787,666	2,666,200	84,815	(2,751,015)	787,666
Total liabilities and stockholders' equity	<u>\$2,666,200</u>	<u>\$ 3,105,453</u>	<u>\$ 109,300</u>	<u>\$ (2,751,015)</u>	<u>\$ 3,129,938</u>

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

Condensed Consolidating Balance Sheet
As of December 31, 2016
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 25,119	\$ 3,714	\$ —	\$ 28,833
Trade accounts receivable, net	—	111,350	7,915	—	119,265
Inventories, net	—	309,584	47,006	—	356,590
Prepaid expenses and other current assets	—	20,296	6,103	—	26,399
Income tax receivable	—	10,780	7	—	10,787
Intercompany receivables	—	—	12,183	(12,183)	—
Total current assets	—	477,129	76,928	(12,183)	541,874
Property, plant and equipment, net	—	211,843	33,501	—	245,344
Goodwill	—	614,278	—	—	614,278
Other intangibles, net	—	1,629,482	—	—	1,629,482
Other assets	—	4,612	13	—	4,625
Deferred income taxes	—	7,036	866	—	7,902
Investments in subsidiaries	2,563,305	96,187	—	(2,659,492)	—
Total assets	<u>\$2,563,305</u>	<u>\$ 3,040,567</u>	<u>\$ 111,308</u>	<u>\$ (2,671,675)</u>	<u>\$ 3,043,505</u>
Liabilities and Stockholders' Equity					
Current Liabilities:					
Trade accounts payable	\$ —	\$ 88,668	\$ 9,365	\$ —	\$ 98,033
Accrued expenses	—	60,957	1,436	—	62,393
Current portion of long-term debt	10,515	—	—	—	10,515
Income tax payable	—	—	3,875	—	3,875
Dividends payable	30,879	—	—	—	30,879
Intercompany payables	—	11,738	445	(12,183)	—
Total current liabilities	41,394	161,363	15,121	(12,183)	205,695
Long-term debt	1,736,254	(20,986)	—	—	1,715,268
Other liabilities	—	21,405	—	—	21,405
Deferred income taxes	—	315,480	—	—	315,480
Total liabilities	1,777,648	477,262	15,121	(12,183)	2,257,848
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	664	—	—	—	664
Additional paid-in capital	387,699	2,168,236	86,833	(2,255,069)	387,699
Accumulated other comprehensive loss	(19,364)	(19,364)	(12,164)	31,528	(19,364)
Retained earnings	416,658	414,433	21,518	(435,951)	416,658
Total stockholders' equity	785,657	2,563,305	96,187	(2,659,492)	785,657
Total liabilities and stockholders' equity	<u>\$2,563,305</u>	<u>\$ 3,040,567</u>	<u>\$ 111,308</u>	<u>\$ (2,671,675)</u>	<u>\$ 3,043,505</u>

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Income
Thirteen Weeks Ended July 1, 2017
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 353,075	\$ 31,784	\$ (16,725)	\$ 368,134
Cost of goods sold	—	243,907	29,937	(16,725)	257,119
Gross profit	—	109,168	1,847	—	111,015
Operating expenses:					
Selling, general and administrative expenses	—	46,093	3,498	—	49,591
Amortization expense	—	4,265	—	—	4,265
Operating income	—	58,810	(1,651)	—	57,159
Other income and expenses:					
Interest expense, net	—	21,998	—	—	21,998
Loss on extinguishment of debt	—	1,045	—	—	1,045
Other income	—	(816)	—	—	(816)
Income before income tax expense	—	36,583	(1,651)	—	34,932
Income tax expense	—	12,632	239	—	12,871
Equity in earnings of subsidiaries	22,061	(1,890)	—	(20,171)	—
Net income	\$22,061	\$ 22,061	\$ (1,890)	\$ (20,171)	\$ 22,061
Comprehensive income	\$25,523	\$ 22,011	\$ 1,523	\$ (23,534)	\$ 25,523

Condensed Consolidating Statement of Operations and Comprehensive Income
Twenty-Six Weeks Ended July 1, 2017
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 747,383	\$ 79,198	\$ (40,573)	\$ 786,008
Cost of goods sold	—	516,235	72,545	(40,573)	548,207
Gross profit	—	231,148	6,653	—	237,801
Operating expenses:					
Selling, general and administrative expenses	—	97,044	6,181	—	103,225
Amortization expense	—	8,737	—	—	8,737
Operating income	—	125,367	472	—	125,839
Other income and expenses:					
Interest expense, net	—	41,645	—	—	41,645
Loss on extinguishment of debt	—	1,163	—	—	1,163
Other income	—	(2,960)	—	—	(2,960)
Income before income tax expense	—	85,519	472	—	85,991
Income tax expense	—	30,264	902	—	31,166
Equity in earnings of subsidiaries	54,825	(430)	—	(54,395)	—
Net income	\$54,825	\$ 54,825	\$ (430)	\$ (54,395)	\$ 54,825
Comprehensive income	\$62,564	\$ 54,724	\$ 7,208	\$ (61,932)	\$ 62,564

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

Condensed Consolidating Statement of Operations and Comprehensive Income
Thirteen Weeks Ended July 2, 2016
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 288,772	\$ 25,445	\$ (7,841)	\$ 306,376
Cost of goods sold	—	184,942	19,560	(7,841)	196,661
Gross profit	—	103,830	5,885	—	109,715
Operating expenses:					
Selling, general and administrative expenses	—	33,093	793	—	33,886
Amortization expense	—	3,362	—	—	3,362
Impairment of intangible assets	—	5,405	—	—	5,405
Operating income	—	61,970	5,092	—	67,062
Other income and expenses:					
Interest expense, net	—	18,426	—	—	18,426
Loss on extinguishment of debt	—	—	—	—	—
Other income	—	(371)	—	—	(371)
Income before income tax expense	—	43,915	5,092	—	49,007
Income tax expense	—	17,552	1,204	—	18,756
Equity in earnings of subsidiaries	30,251	3,888	—	(34,139)	—
Net income	\$30,251	\$ 30,251	\$ 3,888	\$ (34,139)	\$ 30,251
Comprehensive income (loss)	\$27,877	\$ 27,831	\$ 1,425	\$ (29,256)	\$ 27,877

Condensed Consolidating Statement of Operations and Comprehensive Income
Twenty-Six Weeks Ended July 2, 2016
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ —	\$ 618,074	\$ 55,721	\$ (14,441)	\$ 659,354
Cost of goods sold	—	404,968	43,197	(14,441)	433,724
Gross profit	—	213,106	12,524	—	225,630
Operating expenses:					
Selling, general and administrative expenses	—	71,919	1,605	—	73,524
Amortization expense	—	6,770	—	—	6,770
Impairment of intangible assets	—	5,405	—	—	5,405
Operating income	—	129,012	10,919	—	139,931
Other income and expenses:					
Interest expense, net	—	37,561	—	—	37,561
Loss on extinguishment of debt	—	2,836	—	—	2,836
Other income	—	(2,300)	—	—	(2,300)
Income before income tax expense	—	90,915	10,919	—	101,834
Income tax expense	—	35,394	2,993	—	38,387
Equity in earnings of subsidiaries	63,447	7,926	—	(71,373)	—
Net income	\$63,447	\$ 63,447	\$ 7,926	\$ (71,373)	\$ 63,447
Comprehensive income (loss)	\$63,315	\$ 63,269	\$ 7,616	\$ (70,885)	\$ 63,315

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended July 1, 2017
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ —	\$ 10,665	\$ 9,159	\$ —	\$ 19,824
Cash flows from investing activities:					
Capital expenditures	—	(19,516)	(7,355)	—	(26,871)
Proceeds from sale of assets	—	2,229	—	—	2,229
Payments for acquisition of businesses, net of cash acquired	—	(117)	—	—	(117)
Net cash used in investing activities	—	(17,404)	(7,355)	—	(24,759)
Cash flows from financing activities:					
Repayments of long-term debt	(233,640)	—	—	—	(233,640)
Proceeds from issuance of long-term debt	500,000	—	—	—	500,000
Repayments of borrowings under revolving credit facility	(221,000)	—	—	—	(221,000)
Borrowings under revolving credit facility	55,000	—	—	—	55,000
Proceeds from issuance of common stock, net	36	—	—	—	36
Dividends paid	(61,790)	—	—	—	(61,790)
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	—	(1,962)	—	—	(1,962)
Debt financing costs	—	(8,637)	—	—	(8,637)
Intercompany transactions	(38,606)	42,427	(3,821)	—	—
Net cash provided by (used in) financing activities	—	31,828	(3,821)	—	28,007
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	(235)	—	(235)
Net increase (decrease) in cash and cash equivalents	—	25,089	(2,252)	—	22,837
Cash and cash equivalents at beginning of year	—	25,119	3,714	—	28,833
Cash and cash equivalents at end of period	\$ —	\$ 50,208	\$ 1,462	\$ —	\$ 51,670

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

(15) Guarantor and Non-Guarantor Financial Information (Continued)

Condensed Consolidating Statement of Cash Flows
Twenty-Six Weeks Ended July 2, 2016
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	\$ —	\$ 166,658	\$ 34,015	\$ —	\$ 200,673
Cash flows from investing activities:					
Capital expenditures	—	(10,709)	(2,475)	—	(13,184)
Proceeds from sale of assets	—	—	—	—	—
Payments for acquisition of businesses, net of cash acquired	—	—	—	—	—
Net cash used in investing activities	—	(10,709)	(2,475)	—	(13,184)
Cash flows from financing activities:					
Repayments of long-term debt	(150,000)	—	—	—	(150,000)
Repayments of borrowings under revolving credit facility	(50,000)	—	—	—	(50,000)
Borrowings under revolving credit facility	10,000	—	—	—	10,000
Proceeds from issuance of common stock, net	152,020	—	—	—	152,020
Dividends paid	(46,601)	—	—	—	(46,601)
Excess tax benefits from share-based compensation	—	343	—	—	343
Payments of tax withholding on behalf of employees for net share settlement of share-based compensation	—	(1,410)	—	—	(1,410)
Intercompany transactions	84,581	(61,646)	(22,935)	—	—
Net cash used in financing activities	—	(62,713)	(22,935)	—	(85,648)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	481	—	481
Net increase in cash and cash equivalents	—	93,236	9,086	—	102,322
Cash and cash equivalents at beginning of year	—	1,964	3,282	—	5,246
Cash and cash equivalents at end of period	\$ —	\$ 95,200	\$ 12,368	\$ —	\$ 107,568

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Forward-Looking Statements" below and elsewhere in this report. The following discussion should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the thirteen and twenty-six weeks ended July 1, 2017 (second quarter and first two quarters of 2017) included elsewhere in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2016 (fiscal 2016) included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 1, 2017 (which we refer to as our 2016 Annual Report on Form 10-K).

General

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

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

Since 1996, we have successfully acquired and integrated more than 45 brands into our company. Most recently, on December 2, 2016, we acquired Victoria Fine Foods, LLC, and a related entity, from Huron Capital Partners and certain other sellers. On November 21, 2016, we completed the acquisition of the spices & seasonings business of ACH Food Companies, Inc. We refer to these acquisitions in this report as the "Victoria acquisition" and the "spices & seasonings acquisition," respectively. Each of these recent acquisitions has been accounted for using the acquisition method of accounting and, accordingly, the assets acquired, liabilities assumed and results of operations of the acquired businesses are included in our consolidated financial statements from the respective dates of acquisition. These acquisitions and the application of the acquisition method of accounting affect comparability between periods.

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

Fluctuations in Commodity Prices and Production and Distribution Costs. We purchase raw materials, including agricultural products, meat, poultry, ingredients and packaging materials from growers, commodity processors, other food companies and packaging suppliers located in U.S. and foreign locations. Raw materials and other input costs, such as fuel and transportation, are subject to fluctuations in price attributable to a number of factors. Fluctuations in commodity prices can lead to retail price volatility and intensive price competition, and can influence consumer and trade buying patterns. The cost of raw materials, fuel, labor, distribution and other costs related to our operations can increase from time to time significantly and unexpectedly.

We attempt to manage cost inflation risks by locking in prices through short-term supply contracts and advance commodities purchase agreements and by implementing cost saving measures. We also attempt to offset rising input costs by raising sales prices to our customers. However, increases in the prices we charge our customers may lag behind rising input costs. Competitive pressures also may limit our ability to quickly raise prices in response to rising costs.

We have seen and expect to continue to see moderate net cost increases for raw materials in the marketplace during 2017 and are currently locked into our supply and prices for a majority of our most significant commodities (excluding, among others, maple syrup) through the remainder of fiscal 2017 at a cost increase of less than 1% of cost of goods sold. During fiscal 2016, we had a minimal cost decrease for a majority of our most significant commodities (excluding, among others, maple syrup). To the extent we are unable to avoid or offset any present or future cost increases by locking in our costs, implementing cost saving measures or increasing prices to our customers, our operating results could be materially adversely affected. In addition, if input costs begin to decline, customers may look for price reductions in situations where we have locked into purchases at higher costs.

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

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

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

Fluctuations in Currency Exchange Rates. Our foreign sales are primarily to customers in Canada. Our sales to Canada are generally denominated in Canadian dollars and our sales for export to other countries are generally denominated in U.S. dollars. During the first two quarters of 2017 and 2016, our net sales to customers in foreign countries represented approximately 7.1% and 8.4%, respectively, of our total net sales. We also purchase a significant majority of our maple syrup requirements from suppliers located in Québec, Canada. Any weakening of the U.S. dollar against the Canadian dollar could significantly increase our costs relating to the production of our maple syrup products to the extent we have not purchased Canadian dollars in advance of any such weakening of the U.S. dollar or otherwise entered into a currency hedging arrangement in advance of any such weakening of the U.S. dollar. These increased costs would not be fully offset by the positive impact the change in the relative strength of the Canadian dollar versus the U.S. dollar would have on our net sales in Canada. Our purchases of raw materials from other foreign suppliers are generally denominated in U.S. dollars. We also operate a manufacturing facility in Irapuato, Mexico for the manufacture of *Green Giant* frozen products and are as a result exposed to fluctuations in the Mexican peso. Our results of operations could be adversely impacted by changes in foreign currency exchange rates. Costs and expenses in Mexico are recognized in local foreign currency, and therefore we are exposed to potential gains or losses from the translation of those amounts into U.S. dollars for consolidation into our financial statements.

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

Critical Accounting Policies; Use of Estimates

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

In our 2016 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. There have been no material changes to these policies from those disclosed in our 2016 Annual Report on Form 10-K.

Results of Operations

The following table sets forth the percentages of net sales represented by selected items for the second quarter and first two quarters of each of 2017 and 2016 reflected in our consolidated statements of operations. The comparisons of financial results are not necessarily indicative of future results:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Statement of Operations Data:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	69.8 %	64.2 %	69.7 %	65.8 %
Gross profit	30.2 %	35.8 %	30.3 %	34.2 %
Selling, general and administrative expenses	13.5 %	11.0 %	13.1 %	11.2 %
Amortization expense	1.2 %	1.1 %	1.2 %	1.0 %
Impairment of intangible assets	— %	1.8 %	— %	0.8 %
Operating income	15.5 %	21.9 %	16.0 %	21.2 %
Interest expense, net	6.0 %	6.0 %	5.3 %	5.7 %
Loss on extinguishment of debt	0.2 %	— %	0.2 %	0.4 %
Other income	(0.2)%	(0.1)%	(0.4)%	(0.3)%
Income before income tax expense	9.5 %	16.0 %	10.9 %	15.4 %
Income tax expense	3.5 %	6.1 %	3.9 %	5.8 %
Net income	6.0 %	9.9 %	7.0 %	9.6 %

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

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

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

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

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

Impairment of Intangible Assets. Impairment of intangible assets represents a reduction of the carrying value of amortizable intangible assets to fair value when the carrying value of the assets is no longer recoverable.

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

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

Other Income. Other income includes income resulting from the remeasurement of monetary assets denominated in a foreign currency into U.S. dollars for financial reporting purposes.

Non-GAAP Financial Measures

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

Base Business Net Sales. Base business net sales is a non-GAAP financial measure used by management to measure operating performance. We define base business net sales as our net sales excluding (1) the impact of acquisitions until the net sales from such acquisitions are included in both comparable periods and (2) net sales of discontinued brands. The portion of current period net sales attributable to recent acquisitions for which there is no corresponding period in the comparable period of the prior year is excluded. For each acquisition, the excluded period starts at the beginning of the most recent fiscal period being compared and ends on the first anniversary of the acquisition date. For discontinued brands, the entire amount of net sales is excluded from each fiscal period being compared. Management has included this financial measure because it provides useful and comparable trend information regarding the results of our business without the effect of the timing of acquisitions and the effect of discontinued brands.

A reconciliation of base business net sales to reported net sales for the second quarter and first two quarters of 2017 and 2016 follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Reported net sales	\$368,134	\$306,376	\$ 786,008	\$659,354
Net sales from acquisitions ⁽¹⁾	(77,062)	—	(150,918)	—
Net sales of <i>Rickland Orchards</i> ⁽²⁾	—	(158)	—	(528)
Base business net sales	<u>\$291,072</u>	<u>\$306,218</u>	<u>\$ 635,090</u>	<u>\$658,826</u>

(1) Reflects net sales for the spices & seasonings business and *Victoria* for the second quarter and first two quarters of 2017 for which there is no comparable period of net sales in 2016. The spices & seasonings business was acquired on November 21, 2016, and *Victoria* was acquired on December 2, 2016.

(2) *Rickland Orchards* was discontinued during the second quarter of 2016.

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

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

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A reconciliation of EBITDA and adjusted EBITDA to net income and to net cash provided by operating activities for the second quarter and first two quarters of each of 2017 and 2016 along with the components of EBITDA and adjusted EBITDA follows (in thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Net income	\$ 22,061	\$ 30,251	\$ 54,825	\$ 63,447
Income tax expense	12,871	18,756	31,166	38,387
Interest expense, net	21,998	18,426	41,645	37,561
Depreciation and amortization	12,329	9,154	24,547	18,158
Loss on extinguishment of debt	1,045	—	1,163	2,836
EBITDA	70,304	76,587	153,346	160,389
Acquisition-related expenses	7,851	1,699	13,693	3,931
Amortization of acquisition-related inventory step-up	—	—	1,550	3,074
Impairment of intangible assets	—	5,405	—	5,405
Loss on disposal of inventory	—	791	—	791
Loss on sale of assets	—	—	1,608	—
Distribution restructuring expenses	—	474	—	948
Adjusted EBITDA	78,155	84,956	170,197	174,538
Income tax expense	(12,871)	(18,756)	(31,166)	(38,387)
Interest expense, net	(21,998)	(18,426)	(41,645)	(37,561)
Acquisition-related expenses	(7,851)	(1,699)	(13,693)	(3,931)
Distribution restructuring expenses	—	(474)	—	(948)
Write-off of property, plant and equipment	105	—	105	—
Deferred income taxes	9,712	25,813	19,992	35,667
Amortization of deferred financing costs and bond discount	1,464	1,314	2,795	2,782
Amortization of acquisition-related inventory step-up	—	—	(1,550)	(3,074)
Share-based compensation expense	2,059	2,018	3,202	3,116
Excess tax benefits from share-based compensation	—	—	—	(343)
Changes in assets and liabilities, net of effects of business combinations	(31,444)	2,078	(88,413)	68,814
Net cash provided by operating activities	\$ 17,331	\$ 76,824	\$ 19,824	\$ 200,673

Second quarter of 2017 compared to the second quarter of 2016

Net Sales. Net sales increased \$61.7 million, or 20.2%, to \$368.1 million for the second quarter of 2017 from \$306.4 million for the second quarter of 2016. Net sales of the spices & seasonings business, acquired on November 21, 2016, and net sales of *Victoria*, acquired on December 2, 2016, contributed \$67.4 million and \$9.7 million, respectively, to the overall net sales increase.

Base business net sales for the second quarter of 2017 decreased \$15.1 million, or 4.9%, to \$291.1 million from \$306.2 million for the second quarter of 2016. The \$15.1 million decrease was attributable to decreases in unit volume of \$11.8 million, or 3.8%, and net pricing of \$3.3 million, or 1.1%.

Approximately 65% of our base business net sales decline for the second quarter of 2017 was attributable to Pirate Brands, our maple syrup products, *Green Giant* and *Mama Mary's*. Net sales of Pirate Brands decreased \$3.4 million, primarily due to a shift in timing of certain promotional spending from the second quarter of last year to the third quarter of this year. Net sales of our maple syrup products decreased \$3.0 million primarily due to our decision during the first quarter of 2017 to discontinue certain private label sales. Net sales of *Green Giant* frozen products increased by \$9.4 million, driven by the brand's new innovation products. The increase was more than offset by decreases in net sales of *Green Giant* shelf-stable products of \$7.6 million, primarily attributable to forecasted

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distribution losses with certain customers, increases in coupon and slotting expenses of \$2.9 million and a decrease in net sales of non-branded bulk IQF products of \$0.9 million. Net sales of *Mama Mary's*, which faced a category decline of approximately 10.0% during the second quarter of 2017, decreased \$1.5 million, or 16.9%.

See Note 14, "Net Sales by Brand," to our unaudited consolidated interim financial statements in Part I, Item 1 of this report, for detailed information regarding total net sales by brand for the second quarter of 2017 and the second quarter of 2016 for each of our brands that exceed approximately 2% of our fiscal 2017 or fiscal 2016 net sales and for all other brands in the aggregate.

The following chart sets forth the most significant base business net sales decreases by brand for the second quarter of 2017:

Brand:	Base Business	
	Net Sales Increase (Decrease)	
	Dollars (in millions)	Percentage
Pirate Brands	\$ (3.4)	(16.5)%
Maple Grove Farms of Vermont	(2.3)	(12.1)%
Green Giant	(2.0)	(1.9)%
Mama Mary's	(1.5)	(16.9)%
Mrs. Dash	(1.0)	(6.6)%
Bear Creek Country Kitchens	(0.9)	(17.4)%
TrueNorth	(0.8)	(25.7)%
All other brands	(3.2)	(2.5)%
Base business net sales decrease	<u>\$ (15.1)</u>	(4.9)%

Gross Profit. Gross profit increased \$1.3 million, or 1.2%, to \$111.0 million for the second quarter of 2017 from \$109.7 million for the second quarter of 2016. Gross profit expressed as a percentage of net sales decreased to 30.2% in the second quarter of 2017 from 35.8% in the second quarter of 2016, a decrease of 5.6 percentage points. Excluding spices & seasonings and *Victoria*, approximately 3.2 percentage points of the decrease in gross profit percentage was due to an increase in warehousing and distribution costs, 1.1 percentage points of the decrease was due to a decrease in pricing and 0.9 percentage points of the decrease was due to an increase in coupon and slotting expenses. The remaining 0.4 percentage points of the decrease was due to an increase in all other costs, including the impact of product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$15.7 million, or 46.3%, to \$49.6 million for the second quarter of 2017 from \$33.9 million for the second quarter of 2016. The increase was composed of increases in marketing expenses of \$8.0 million, acquisition-related expenses of \$6.2 million and warehousing expenses of \$3.7 million, partially offset by a decrease in distribution restructuring expenses of \$0.5 million and all other expenses of \$1.7 million. Expressed as a percentage of net sales, selling, general and administrative expenses increased 2.5 percentage points to 13.5% for the second quarter of 2017 from 11.0% for the second quarter of 2016.

Amortization Expense. Amortization expense increased \$0.9 million to \$4.3 million for the second quarter of 2017 from \$3.4 million for the second quarter of 2016 due to the spices & seasonings and *Victoria* acquisitions completed in fiscal 2016.

Impairment of Intangible Assets. Impairment of intangible assets of \$5.4 million for the second quarter of 2016 includes a \$4.5 million loss for the impairment of amortizable trademarks and a \$0.9 million loss for the impairment of customer relationship intangibles, both relating to *Rickland Orchards*, as we discontinued the *Rickland Orchards* brand during the second quarter of 2016 because there was not sufficient demand to warrant continued production.

Operating Income. As a result of the foregoing, operating income decreased \$9.9 million, or 14.8%, to \$57.2 million for the second quarter of 2017 from \$67.1 million for the second quarter of 2016. Operating income expressed as a percentage of net sales decreased to 15.5% in the second quarter of 2017 from 21.9% in the second quarter of 2016.

Net Interest Expense. Net interest expense increased \$3.6 million, or 19.4%, to \$22.0 million for the second quarter of 2017 from \$18.4 million in the second quarter of 2016. The increase was primarily attributable to additional borrowings made in the fourth quarter of 2016 to fund the spices & seasonings acquisition and the *Victoria* acquisition and in the second quarter of 2017 in connection with our credit agreement refinancing and senior notes offering. See “—Liquidity and Capital Resources—Debt” below.

Loss on Extinguishment of Debt. Loss on extinguishment of debt for the second quarter of 2017 includes the write-off of deferred debt financing costs and unamortized discount of \$0.9 million and \$0.2 million, respectively, relating to the repayment of all outstanding borrowings under the tranche A term loans. We did not incur a loss on extinguishment of debt for the second quarter of 2016. See “—Debt” below.

Other Income. Other income for the second quarter of 2017 and 2016 includes remeasurement of monetary assets denominated in a foreign currency into U.S. dollars of \$0.8 million and \$0.4 million, respectively.

Income Tax Expense. Income tax expense decreased \$5.9 million to \$12.9 million for the second quarter of 2017 from \$18.8 million for the second quarter of 2016. Our effective tax rate was 36.8% for the second quarter of 2017 and 38.3% for the second quarter of 2016.

First two quarters of 2017 compared to the first two quarters of 2016

Net Sales. Net sales increased \$126.6 million, or 19.2%, to \$786.0 million for the first two quarters of 2017 from \$659.4 million for the first two quarters of 2016. Net sales of the spices & seasonings business, acquired on November 21, 2016, and net sales of *Victoria*, acquired on December 2, 2016, contributed \$130.6 million and \$20.4 million, respectively, to the overall net sales increase.

Base business net sales for the first two quarters of 2017 decreased \$23.7 million, or 3.6%, to \$635.1 million from \$658.8 million for the first two quarters of 2016. The \$23.7 million decrease was attributable to decreases in unit volume of \$21.5 million, or 3.3%, and net pricing of \$2.2 million, or 0.3%.

Over 60% of our base business net sales decline for the first two quarters of 2017 was attributable to *Green Giant*, our maple syrup products, *Bear Creek Country Kitchens* and *Mama Mary's*. Net sales of *Green Giant* frozen products increased by \$7.8 million, driven by the brand's new innovation products. The increase was more than offset by decreases in unit volume of *Green Giant* shelf-stable products of \$8.7 million, primarily attributable to forecasted distribution losses with certain customers, an increase in coupon and slotting expenses of \$4.5 million and a decrease in net sales of non-branded bulk IQF products of \$1.3 million. Net sales of our maple syrup products decreased \$3.9 million, primarily due to our decision during the first quarter of 2017 to discontinue certain private label sales. Net sales of *Bear Creek Country Kitchens*, which faced aggressive competition and a category decline of approximately 5.0% during the first two quarters of 2017, decreased \$2.3 million, or 12.1%. Net sales of *Mama Mary's* decreased \$2.2 million, or 11.4%, generally in line with a category decline of approximately 9.0%.

See Note 14, “Net Sales by Brand,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report, for detailed information regarding total net sales by brand for the first two quarters of 2017 and the first two quarters of 2016 for each of our brands that exceed approximately 2% of our fiscal 2017 or fiscal 2016 net sales and for all other brands in the aggregate.

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The following chart sets forth the most significant base business net sales decreases by brand for the first two quarters of 2017:

	Base Business Net Sales Increase (Decrease)	
	Dollars (in millions)	Percentage
Brand:		
<i>Green Giant</i>	\$ (6.7)	(2.8)%
<i>Bear Creek Country Kitchens</i>	(2.3)	(12.1)%
<i>Mama Mary's</i>	(2.2)	(11.4)%
<i>Maple Grove Farms of Vermont</i>	(2.2)	(5.9)%
Pirate Brands	(1.6)	(3.5)%
<i>TrueNorth</i>	(1.5)	(23.5)%
<i>SpringTree</i>	(1.3)	(13.6)%
<i>B&M</i>	(1.1)	(10.1)%
<i>Bloch & Guggenheimer</i>	(1.1)	(7.5)%
<i>Mrs. Dash</i>	(0.8)	(2.6)%
All other brands	(2.9)	(1.3)%
Base business net sales decrease	<u>\$ (23.7)</u>	<u>(3.6)%</u>

Gross Profit. Gross profit increased \$12.2 million, or 5.4%, to \$237.8 million for the first two quarters of 2017 from \$225.6 million for the first two quarters of 2016. Gross profit expressed as a percentage of net sales decreased to 30.3% in the first two quarters of 2017 from 34.2% in the first two quarters of 2016, a decrease of 3.9 percentage points. Excluding spices & seasonings and *Victoria*, approximately 2.7 percentage points of the decrease in gross profit percentage was due to an increase in warehousing and distribution costs, 0.6 percentage points of the decrease was due to an increase in coupon and slotting expenses and 0.3 percentage points of the decrease was due to a decrease in pricing. The remaining 0.3 percentage points of the decrease was due to an increase of all other costs, including the impact of product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$29.7 million, or 40.4%, to \$103.2 million for the first two quarters of 2017 from \$73.5 million for the first two quarters of 2016. The increase was composed of increases in marketing expenses of \$11.3 million, acquisition-related expenses of \$9.8 million, warehousing expenses of \$7.9 million, selling expenses of \$2.0 million (which includes a \$1.6 million increase in brokerage expenses) and a loss on sale of assets of \$1.6 million, partially offset by a decrease in distribution restructuring expenses of \$0.9 million and all other expenses of \$2.0 million. Expressed as a percentage of net sales, selling, general and administrative expenses increased 1.9 percentage points to 13.1% for the first two quarters of 2017 from 11.2% for the first two quarters of 2016.

Amortization Expense. Amortization expense increased \$1.9 million to \$8.7 million for the first two quarters of 2017 from \$6.8 million for the first two quarters of 2016 due to the spices & seasonings and *Victoria* acquisitions completed in fiscal 2016.

Impairment of Intangible Assets. Impairment of intangible assets of \$5.4 million for the first two quarters of 2016 includes a \$4.5 million loss for the impairment of amortizable trademarks and a \$0.9 million loss for the impairment of customer relationship intangibles, both relating to *Rickland Orchards*, as we discontinued the *Rickland Orchards* brand during the second quarter of 2016 because there was not sufficient demand to warrant continued production.

Operating Income. As a result of the foregoing, operating income decreased \$14.1 million, or 10.1%, to \$125.8 million for the first two quarters of 2017 from \$139.9 million for the first two quarters of 2016. Operating income expressed as a percentage of net sales decreased to 16.0% in the first two quarters of 2017 from 21.2% in the first two quarters of 2016.

Net Interest Expense. Net interest expense increased \$4.0 million, or 10.9%, to \$41.6 million for the first two quarters of 2017 from \$37.6 million in the first two quarters of 2016. The increase was primarily attributable to additional borrowings made in the fourth quarter of 2016 to fund the spices & seasonings acquisition and the *Victoria* acquisition and in the second quarter of 2017 in connection with our credit agreement refinancing and senior notes offering. See “—Liquidity and Capital Resources—Debt” below.

Loss on Extinguishment of Debt. Loss on extinguishment of debt for the first two quarters of 2017 includes the write-off of deferred debt financing costs and unamortized discount of \$0.9 million and \$0.2 million, respectively, relating to the repayment of all outstanding borrowings under the tranche A term loans. During the first quarter of 2017, we incurred a loss on extinguishment of debt relating to the refinancing of our tranche B term loans of less than \$0.1 million. Loss on extinguishment of debt for the first two quarters of 2016 includes the write-off of deferred debt financing costs and unamortized discount of \$2.2 million and \$0.6 million, respectively, relating to the repayment of \$40.1 million aggregate principal amount of our tranche A term loans and \$109.9 million aggregate principal amount of our tranche B term loans. See “—Debt” below.

Other Income. Other income for the first two quarters of 2017 and 2016 includes remeasurement of monetary assets denominated in a foreign currency into U.S. dollars of \$3.0 million and \$2.3 million, respectively.

Income Tax Expense. Income tax expense decreased \$7.2 million to \$31.2 million for the first two quarters of 2017 from \$38.4 million for the first two quarters of 2016. Our effective tax rate was 36.2% for the first two quarters of 2017 and 37.7% for the first two quarters of 2016.

Liquidity and Capital Resources

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

Cash Flows

Net cash provided by operating activities decreased \$180.9 million to \$19.8 million for the first two quarters of 2017 from \$200.7 million for the first two quarters of 2016. The decrease in net cash provided by operating activities primarily reflects unfavorable working capital (comprised of changes in inventories, prepaid expenses and accrued expenses) comparisons to the first two quarters of 2016. This decrease is mainly due to an increase in inventory and the timing of payments received from post-acquisition transition services agreements.

Net cash used in investing activities for the first two quarters of 2017 increased \$11.6 million to \$24.8 million from \$13.2 million for the first two quarters of 2016. The increase was attributable to an increase in capital spending, partially offset by the proceeds from the sale of assets. Capital expenditures in the first two quarters of 2017 and 2016 included expenditures for building improvements, purchases of manufacturing and computer equipment and capitalized interest. During the first two quarters of 2017, we sold to a third-party co-packer our Le Sueur, Minnesota research center, including the seed technology assets, property, plant and equipment, which we acquired as part of the *Green Giant* acquisition, resulting in a \$1.6 million loss on sale of assets.

Net cash provided by financing activities for the first two quarters of 2017 increased \$113.6 million to \$28.0 million from net cash used in financing activities of \$85.6 million for the first two quarters of 2016. Net cash provided by financing activities for the first two quarters of 2017 consisted of \$500.0 million of proceeds from the issuance of our 5.25% senior notes and \$55.0 million of revolving credit facility borrowings, partially offset by \$233.6 million repayment of our tranche A term loan, \$221.0 million of repayments of revolving credit facility borrowings, \$61.8 million of dividend payments, \$8.6 million of debt financing costs and \$2.0 million of payments of tax withholding on behalf of employees for net share settlement of share based compensation. Net cash used in financing activities for the first two quarters of 2016 consisted of \$150.0 million of term loan repayment, \$50.0 million of repayments of revolving credit facility borrowings, \$46.6 million of dividend payments and \$1.4 million of payments of tax withholding on

behalf of employees for net share settlement of share based compensation, partially offset by \$152.0 million of proceeds from the issuance of common stock, \$10.0 million of revolving credit facility borrowings, and \$0.3 million excess tax benefits of from share-based compensation.

Based on a number of factors, including amortization for tax purposes of our trademarks, goodwill and other intangible assets acquired in prior acquisitions, we realized a significant reduction in cash taxes in fiscal 2016 as compared to our tax expense for financial reporting purposes. During the second quarter of 2016, we discontinued the *Rickland Orchards* brand, which resulted in a one-time cash taxes benefit of \$17.3 million for fiscal 2016.

We believe that we will realize a benefit to our cash taxes payable from amortization of our trademarks, goodwill and other intangible assets for the taxable years 2017 through 2031. If there is a change in U.S. federal tax policy that reduces any of these available deductions or results in an increase in our corporate tax rate, our cash taxes payable may increase further, which could significantly reduce our future liquidity and impact our ability to make interest and dividend payments.

Dividend Policy

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

For the first two quarters of 2017 and 2016, we had cash flows provided by operating activities of \$19.8 million and \$200.7 million, respectively, and distributed as dividends of \$61.8 million and \$46.6 million, respectively. Based upon our current dividend rate of \$1.86 per share per annum, we expect our aggregate dividend payments in fiscal 2017 to be approximately \$123.6 million.

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

Acquisitions

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

We financed the spices & seasonings acquisition, completed in November 2016, with cash on hand, including the net proceeds of our August 2016 public offering of common stock, and additional revolving loans under our senior secured credit facility. We financed the *Victoria* acquisition, completed in December 2016, with cash on hand and additional revolving loans under our senior secured credit facility. The impact of future acquisitions, whether financed with additional indebtedness or otherwise, may have a material impact on our liquidity and capital resources.

Debt

Senior Secured Credit Agreement. On March 30, 2017, we refinanced our senior secured credit facility. The refinancing reduced by 0.75% the spread over LIBOR or the applicable base rate on \$640.1 million of tranche B term loans. On April 3, 2017, we repaid all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans using the net proceeds of our registered public offering of \$500.0 million aggregate principal amount of 5.25% senior notes due 2025. At July 1, 2017, \$640.1 million of tranche B term loans and \$10.0 million of revolving loans were outstanding under our credit agreement. The credit agreement is secured by substantially all of our and our domestic subsidiaries' assets except our and our domestic subsidiaries' real property. At July 1, 2017, the available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2.0 million, was \$488.0 million. Proceeds of the revolving credit facility may be used for general corporate purposes, including acquisitions of targets in the same or a similar line of business as our company, subject to specified criteria. The revolving credit facility matures on June 5, 2019.

The entire \$640.1 million principal amount of tranche B term loans outstanding are due and payable at maturity on November 2, 2022.

Interest under the revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin ranging from 0.50% to 1.00%, and LIBOR plus an applicable margin ranging from 1.50% to 2.00%, in each case depending on our consolidated leverage ratio. At July 1, 2017, the revolving credit facility interest rate was approximately 3.21%.

Interest under the tranche B term loan facility is determined based on alternative rates that we may choose in accordance with the credit agreement, including a base rate per annum plus an applicable margin of 1.25%, and LIBOR plus an applicable margin of 2.25%. At July 1, 2017, the tranche B term loan interest rate was approximately 3.48%.

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

4.625% Senior Notes due 2021. On June 4, 2013, we issued \$700.0 million aggregate principal amount of 4.625% senior notes due 2021 at a price to the public of 100% of their face value. Interest on the 4.625% senior notes is payable on June 1 and December 1 of each year. The 4.625% senior notes will mature on June 1, 2021, unless earlier retired or redeemed as permitted or required by the terms of the indenture governing the 4.625% senior notes as described in Note 6, "Long-Term Debt," to our unaudited consolidated interim financial statements. We may also, from time to time, seek to retire the 4.625% senior notes through cash repurchases of the 4.625% senior notes or exchanges of the 4.625% senior notes for equity securities or both, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. See Note 6, "Long-Term Debt," to our unaudited consolidated interim financial statements for a more detailed description of the 4.625% senior notes.

5.25% Senior Notes due 2025. On April 3, 2017, we issued \$500.0 million aggregate principal amount of 5.25% senior notes due 2025 at a price to the public of 100% of their face value. We used the net proceeds of the offering to repay all of the outstanding borrowings and amounts due under our revolving credit facility and tranche A term loans, and to pay related fees and expenses. We intend to use the remaining net proceeds for general corporate purposes, which could include, among other things, repayment of other long term debt or possible acquisitions. Interest on the 5.25% senior notes is payable on April 1 and October 1 of each year, commencing October 1, 2017. The 5.25% senior notes will mature on April 1, 2025, unless earlier retired or redeemed as permitted or required by the terms of the indenture governing the 5.25% senior notes as described in Note 6, "Debt," to our unaudited consolidated interim financial statements. We may also, from time to time, seek to retire the 5.25% senior notes through cash repurchases of the 5.25% senior notes or exchanges of the 5.25% senior notes for equity securities or both, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market

conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. See Note 6 “Debt,” to our unaudited consolidated interim financial statements for a more detailed description of the 5.25% senior notes.

Future Capital Needs

On July 1, 2017, our total long-term debt of \$1,821.5 million, net of our cash and cash equivalents of \$51.7 million, was \$1,769.8 million. Stockholders’ equity as of that date was \$787.7 million.

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

We expect to make capital expenditures of approximately \$60.0 million in the aggregate during fiscal 2017, \$26.9 million of which were made during the first two quarters. Our projected capital expenditures for fiscal 2017 include anticipated capital expenditures of approximately \$9.8 million to move equipment used in the production of certain *Green Giant* products from General Mills’ Belvidere, Illinois manufacturing facility to an existing B&G Foods manufacturing facility and one or more co-packers, approximately \$11.0 million for the purchase of equipment for innovation products for *Green Giant* and approximately \$11.2 million in connection with the implementation of a new enterprise resource planning (ERP) system.

Seasonality

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

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

Inflation

We are currently locked into pricing and supply for substantially all of our major commodities, other than maple syrup, through the remainder of fiscal 2017 at a cost increase of less than 1% of cost of goods sold and will continue to manage inflation risk by entering into short term supply contracts and advance commodities purchase agreements from time to time, and, if necessary, by raising prices. During fiscal 2016, we had a minimal cost decrease for a majority of our most significant commodities (excluding, among others, maple syrup). To the extent we are unable to avoid or offset any present or future cost increases by locking in our costs, implementing cost saving measures or increasing prices to our customers, our operating results could be materially and adversely affected. In addition, if input costs begin to decline, customers may look for price reductions in situations where we have locked into purchases at higher costs.

Contingencies

See Note 10, “Commitments and Contingencies,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report.

Recent Accounting Pronouncements

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

Off-balance Sheet Arrangements

As of July 1, 2017, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Commitments and Contractual Obligations

Our contractual obligations and commitments principally include obligations associated with our outstanding indebtedness, future minimum operating lease obligations and future pension obligations. During the first two quarters of 2017, except for the refinancing of our tranche B term loans and the issuance of our 5.25% senior notes, see “—Debt” above, there were no material changes outside the ordinary course of business in the specified contractual obligations set forth in the Commitments and Contractual Obligations table in our 2016 Annual Report on Form 10-K.

Forward-Looking Statements

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

- our substantial leverage;
- the effects of rising costs for our raw materials, packaging and ingredients;
- crude oil prices and their impact on distribution, packaging and energy costs;
- our ability to successfully implement sales price increases and cost saving measures to offset any cost increases;
- intense competition, changes in consumer preferences, demand for our products and local economic and market conditions;
- our continued ability to promote brand equity successfully, to anticipate and respond to new consumer trends, to develop new products and markets, to broaden brand portfolios in order to compete effectively with lower priced products and in markets that are consolidating at the retail and manufacturing levels and to improve productivity;
- the risks associated with the expansion of our business;
- our possible inability to identify new acquisitions or to integrate recent or future acquisitions or our failure to realize anticipated revenue enhancements, cost savings or other synergies;
- our ability to access the credit markets and our borrowing costs and credit ratings, which may be influenced by credit markets generally and the credit ratings of our competitors;
- unanticipated expenses, including, without limitation, litigation or legal settlement expenses;
- the effects of currency movements of the Canadian dollar and the Mexican peso as compared to the U.S. dollar;

- future impairments of our goodwill and intangible assets;
- our sustainability initiatives and changes to environmental laws and regulations;
- other factors that affect the food industry generally, including:
 - recalls if products become adulterated or misbranded, liability if product consumption causes injury, ingredient disclosure and labeling laws and regulations and the possibility that consumers could lose confidence in the safety and quality of certain food products;
 - competitors' pricing practices and promotional spending levels;
 - fluctuations in the level of our customers' inventories and credit and other business risks related to our customers operating in a challenging economic and competitive environment; and
 - the risks associated with third-party suppliers and co-packers, including the risk that any failure by one or more of our third-party suppliers or co-packers to comply with food safety or other laws and regulations may disrupt our supply of raw materials or certain finished goods products or injure our reputation; and
- other factors discussed elsewhere in this report and in our other public filings with the SEC, including under Item 1A, "Risk Factors," in our 2016 Annual Report on Form 10-K.

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Commodity Prices and Inflation. The information under the heading "Inflation" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

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

Changes in interest rates impact our fixed and variable rate debt differently. For fixed rate debt, a change in interest rates will only impact the fair value of the debt, whereas for variable rate debt, a change in the interest rates will impact interest expense and cash flows. At July 1, 2017, we had \$1,200.0 million of fixed rate debt and \$650.1 million of variable rate debt.

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Based upon our principal amount of long-term debt outstanding at July 1, 2017, a hypothetical 1.0% increase or decrease in interest rates would have affected our annual interest expense by approximately \$6.5 million.

The carrying values and fair values of our revolving credit loans, term loans, 4.625% senior notes and 5.25% senior notes as of July 1, 2017 and December 31, 2016 are as follows (in thousands):

	July 1, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Revolving credit loans	10,000	10,000 ⁽¹⁾	176,000	176,000 ⁽¹⁾
Tranche A term loans due 2019	—	—	233,378 ⁽²⁾	232,795 ⁽¹⁾
Tranche B term loans due 2022	637,614 ⁽³⁾	640,802 ⁽¹⁾	637,391 ⁽³⁾	645,358 ⁽¹⁾
4.625% senior notes due 2021	700,000	711,375 ⁽⁴⁾	700,000	714,000 ⁽⁴⁾
5.25% senior notes due 2025	500,000	510,000 ⁽⁴⁾	—	—

- (1) Fair values are estimated based on Level 2 inputs, which were quoted prices for identical or similar instruments in markets that are not active.
- (2) The carrying values of the tranche A term loans are net of discount. On April 3, 2017, we repaid all of the outstanding borrowings and amounts due under our tranche A term loans. At December 31, 2016, the face amounts of the tranche A term loans were \$233.6 million.
- (3) The carrying values of the tranche B term loans are net of discount. At July 1, 2017 and December 31, 2016, the face amounts of the tranche B term loans were \$640.1 million.
- (4) Fair values are estimated based on quoted market prices.

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

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

Foreign Currency Risk. Our foreign sales are primarily to customers in Canada. Our sales to Canada are generally denominated in Canadian dollars and our sales for export to other countries are generally denominated in U.S. dollars. During the first two quarters of 2017, our net sales to customers in foreign countries represented approximately 7.1% of our total net sales. During the first two quarters of 2016, our net sales to customers in foreign countries represented approximately 8.4% of our total net sales. We also purchase certain raw materials from foreign suppliers. For example, we purchase a significant majority of our maple syrup requirements from suppliers in Québec, Canada. These purchases are made in Canadian dollars. A weakening of the U.S. dollar in relation to the Canadian dollar would significantly increase our future costs relating to the production of our maple syrup products to the extent we have not purchased Canadian dollars or otherwise entered into a currency hedging arrangement in advance of any such weakening of the U.S. dollar. Our purchases of raw materials from other foreign suppliers are generally denominated in U.S. dollars, but certain purchases of raw materials in Mexico are denominated in Mexican pesos.

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

Market Fluctuation Risks Relating to our Defined Benefit Pension Plans. See Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies; Use of Estimates” and Note 9, “Pension Benefits,” to our unaudited consolidated interim financial statements in Part I, Item 1 of this report for a discussion of the exposure of our defined benefit pension plan assets to risks related to market fluctuations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, our management, including our chief executive officer and our chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and

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

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

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

In anticipation of the upcoming expiration of the transition services agreement relating to our newly acquired spices & seasonings business, we transitioned the spices & seasonings business to a new enterprise resource planning (ERP) system during the third quarter of 2017. We plan to continue implementing the ERP system throughout other parts of our businesses over the course of approximately the next two years. In connection with these implementations and resulting business process changes, we continue to review and enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting.

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We do not believe there have been any material changes in our risk factors as previously disclosed in our 2016 Annual Report on Form 10-K.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

EXHIBIT NO.	DESCRIPTION
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer and Chief Financial Officer.
101.1	The following unaudited financial information from B&G Foods' Quarterly Report on Form 10-Q for the quarter ended July 1, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, and (vi) document and entity information.

SIGNATURE

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

Dated: August 7, 2017

B&G FOODS, INC.

By: /s/ Amy J. Chiovari
Amy J. Chiovari
Corporate Controller and Interim Chief Financial Officer
(Principal Financial and Accounting Officer and
Authorized Officer)

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Robert C. Cantwell, certify that:

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

Date: August 7, 2017

/s/ Robert C. Cantwell
 Robert C. Cantwell
 Chief Executive Officer

CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Amy J. Chiovari, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2017

/s/ Amy J. Chiovari

Amy J. Chiovari

Interim Chief Financial Officer

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

In connection with the Quarterly Report of B&G Foods, Inc. (the “Company”) on Form 10-Q for the period ending July 1, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert C. Cantwell, Chief Executive Officer of the Company, and I, Amy J. Chiovani, Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert C. Cantwell

Robert C. Cantwell
Chief Executive Officer
August 7, 2017

/s/ Amy J. Chiovani

Amy J. Chiovani
Interim Chief Financial Officer
August 7, 2017

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