

B&G Foods, Inc.  
Form 10-Q  
October 25, 2007

As filed with the Securities and Exchange Commission on October 25, 2007

## 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 September 29, 2007

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3918742**  
(I.R.S. Employer Identification No.)

**4 Gatehall Drive, Suite 110, 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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 September 30, 2007, the registrant had 36,778,988 shares of Class A common stock, par value \$0.01 per share issued and outstanding, 17,115,567 of which were held in the form of Enhanced Income Securities (EISs) and 19,663,421 of which were held separate from EISs. Each EIS represents one share of Class A common stock and \$7.15 principal amount of 12% senior subordinated notes due 2016. As of September 30, 2007, the registrant had no shares of Class B common stock, par value \$0.01 per share, issued or outstanding.

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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**

(Dollars in thousands, except per share data)

(Unaudited)

<b>Assets</b>	<b>September 29, 2007</b>	<b>December 30, 2006</b>
Current assets:		
Cash and cash equivalents	\$ 34,624	\$ 29,626
Trade accounts receivable, net	37,749	31,090
Inventories	95,418	78,269
Prepaid expenses	3,263	3,246
Income tax receivable	1,170	516
Deferred income taxes	2,574	2,574
Total current assets	174,798	145,321
Property, plant and equipment, net of accumulated depreciation of \$53,685 and \$47,720	48,305	40,269
Goodwill	253,677	198,076
Trademarks	227,220	200,220
Customer relationship intangibles, net	124,381	14,369
Net deferred financing costs and other assets	17,797	17,950
Total assets	\$ 846,178	\$ 616,205
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Trade accounts payable	\$ 25,147	\$ 21,520
Accrued expenses	24,481	16,520
Dividends payable	7,797	4,240
Total current liabilities	57,425	42,280
Long-term debt	535,800	430,800
Other liabilities	5,865	4,972
Deferred income taxes	68,977	62,666
Total liabilities	668,067	540,718
Stockholders equity:		
Preferred stock, \$0.01 par value per share. Authorized 1,000,000 shares; no shares issued or outstanding		
Class A common stock, \$0.01 par value per share. Authorized 100,000,000 shares; 36,778,988 and 20,000,000 shares issued and outstanding as of September 29, 2007 and December 30, 2006, respectively	368	200

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Class B common stock, \$0.01 par value per share. Authorized 25,000,000 shares; no shares issued or outstanding as of September 29, 2007 and 7,556,443 shares issued and outstanding as of December 30, 2006

				76
Additional paid-in capital	210,024			119,152
Accumulated other comprehensive loss	(2,901)			(1,904)
Accumulated deficit	(29,380)			(42,037)
Total stockholders' equity	178,111			75,487
Total liabilities and stockholders' equity	\$ 846,178	\$		616,205

See Notes to Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net sales	\$ 117,003	\$ 101,854	\$ 338,952	\$ 300,099
Cost of goods sold	78,725	72,501	230,668	214,477
Gross profit	38,278	29,353	108,284	85,622
Operating expenses:				
Sales, marketing and distribution expenses	13,114	11,462	37,184	33,531
General and administrative expenses	3,374	1,593	6,802	5,056
Gain on sale of property, plant and equipment		(525)		(525)
Amortization expense - customer relationships	1,612	188	3,888	542
Operating income	20,178	16,635	60,410	47,018
Other expenses:				
Interest expense, net	12,374	11,009	40,028	32,796
Income before income tax expense	7,804	5,626	20,382	14,222
Income tax expense	2,958	2,183	7,725	5,518
Net income	\$ 4,846	\$ 3,443	12,657	8,704
Earnings per share calculations:				
Basic and diluted distributed earnings per share:				
Class A common stock	\$ 0.21	\$ 0.21	\$ 0.72	\$ 0.64
Basic and diluted earnings (loss) per share:				
Class A common stock	\$ 0.13	\$ 0.18	\$ 0.49	\$ 0.49
Class B common stock	\$	\$ (0.03)	\$ (0.23)	\$ (0.15)

See Notes to Consolidated Financial Statements.

## B&amp;G Foods, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(Dollars in thousands)

(Unaudited)

	Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,657	\$ 8,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,706	5,863
Amortization of deferred debt issuance costs	2,397	2,122
Deferred income taxes	6,944	4,910
Gain on sale of property, plant and equipment		(525)
Write off of deferred debt issuance costs	1,769	
Changes in assets and liabilities, net of effects of business acquired:		
Trade accounts receivable	(6,659)	2,242
Inventories	(15,660)	(8,400)
Prepaid expenses	(17)	(49)
Income tax receivable	(654)	618
Other assets	(12)	(4)
Trade accounts payable	3,627	(2,589)
Accrued expenses	7,881	5,339
Other liabilities	(779)	(55)
Net cash provided by operating activities	21,200	18,176
<b>Cash flows from investing activities:</b>		
Capital expenditures	(10,914)	(5,788)
Payments for acquisition of businesses	(200,850)	(30,102)
Net proceeds from sale of property		1,275
Net cash used in investing activities	(211,764)	(34,615)
<b>Cash flows from financing activities:</b>		
Payments of long-term debt	(100,000)	
Proceeds from issuance of long-term debt	205,000	25,000
Payments for repurchase of Class B common stock	(82,417)	
Proceeds from issuance of Class A common stock, net	193,215	
Dividends paid	(16,277)	(12,720)
Payment of debt issuance costs	(4,001)	(419)
Net cash provided by financing activities	195,520	11,861
Effect of exchange rate fluctuations on cash and cash equivalents	42	50
Net increase (decrease) in cash and cash equivalents	4,998	(4,528)
Cash and cash equivalents at beginning of period	29,626	25,429
Cash and cash equivalents at end of period	\$ 34,624	\$ 20,901
<b>Supplemental disclosures of cash flow information:</b>		
Cash interest payments	\$ 30,665	\$ 25,439
Cash income tax payments	\$ 947	\$ 500
Cash income tax refunds	\$ (91)	\$ (800)

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Non-cash transactions:

Dividends declared and not yet paid	\$	7,797	\$	4,240
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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, the principal assets of which are the 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. We operate in the food industry segment and manufacture, sell and distribute a diversified portfolio of high-quality shelf-stable foods across the United States, Canada and Puerto Rico. Our products include fruit spreads, canned meats and beans, spices, seasonings, marinades, hot sauces, wine vinegar, hot cereals, molasses, maple syrup, salad dressings, Mexican-style sauces, taco shells and kits, salsas, pickles, peppers and other specialty food products. We compete in the retail grocery, food service, specialty, private label, club and mass merchandiser channels of distribution. We distribute these products to retailers in the greater New York metropolitan area through a direct-store-delivery sales and distribution system and elsewhere in the United States through a nationwide network of independent brokers and distributors.

***Recent Acquisitions***

On January 10, 2006, we acquired the *Grandma's* molasses business for approximately \$30.1 million in cash, including transaction costs, from Mott's LLP, a Cadbury Schweppes Americas Beverages company. Effective February 25, 2007, we completed the acquisition of the *Cream of Wheat* and *Cream of Rice* business for approximately \$200.9 million in cash, including transaction costs, from Kraft Foods Global, Inc. We refer to the *Cream of Wheat* and *Cream of Rice* acquisition as the *Cream of Wheat* acquisition and the *Cream of Wheat* and *Cream of Rice* businesses collectively as the *Cream of Wheat* business.

The acquisitions described above were accounted for using the purchase method of accounting and, accordingly, the assets acquired and results of operations are included in our consolidated financial statements from the respective dates of the acquisitions. The excess of the purchase price over the fair value of identifiable net assets acquired represents goodwill. Trademarks are deemed to have an indefinite useful life and are not amortized. Customer relationship intangibles are amortized over 20 years. Goodwill, customer relationship intangibles and trademarks are deductible for income tax purposes.

The following table sets forth the preliminary allocation of the *Cream of Wheat* purchase price to the estimated fair value of the net assets acquired at the date of acquisition based upon currently available information. Inventory has been recorded at estimated selling price less costs of disposal and a reasonable profit. Equipment has been recorded at estimated fair value as determined by a third-party valuation. We have also obtained a third-party valuation of the intangible assets acquired (including trademarks and customer relationship intangibles). Management does not expect any adjustments to the preliminary allocation to be material.

**Acquisition of the *Cream of Wheat* business (dollars in thousands):**

Inventory	\$	1,489
Equipment		2,860
Goodwill		55,601

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Trademarks - indefinite life intangible assets		27,000
Customer relationship intangibles - amortizable intangible assets		113,900
Total	\$	200,850

During the second quarter of fiscal 2006, we obtained a third-party valuation of certain acquired assets, including intangible assets, and finalized our internal assessments of the purchase price allocation for the *Grandma's* molasses acquisition. The following table sets forth the purchase price allocation:

**B&G Foods, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****(1) Nature of Operations (Continued)****Acquisition of the Grandma's molasses business (dollars in thousands):**

Equipment	\$	25
Goodwill		9,877
Trademarks - indefinite life intangible assets		5,100
Customer relationship intangibles - amortizable intangible assets		15,100
Total		30,102

**Pro Forma Summary of Operations**

The following pro forma summary of operations for the first three quarters of 2007 and the third quarter and first three quarters of 2006 presents our operations as if the *Cream of Wheat* acquisition had occurred as of the beginning of each period presented. In addition to including the results of operations of the *Cream of Wheat* business, the pro forma information gives effect to interest on additional borrowings and changes in depreciation of property, plant and equipment and amortization of customer relationship intangibles. No pro forma financial information has been presented for the *Grandma's* molasses acquisition because such pro forma financial information is not material to our consolidated statements of operations for the periods presented.

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2007 (Actual)	September 30, 2006 (Pro forma)	September 29, 2007 (Pro forma)	September 30, 2006 (Pro forma)
	(dollars in thousands)			
Net sales	\$ 117,003	\$ 116,362	\$ 350,385	\$ 344,401
Net income	4,846	5,244	14,665	14,551
Basic and diluted earnings per share Class A common stock	\$ 0.13	\$ 0.25	\$ 0.56	\$ 0.71
Basic and diluted earnings (loss) per share Class B common stock		\$ 0.04	\$ (0.16)	\$ 0.07

The pro forma information presented above does not purport to be indicative of the results that actually would have been attained if the *Cream of Wheat* acquisition had occurred as of the beginning of each period presented and is not intended to be a projection of future results.

**Class A Common Stock Offering**

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On May 29, 2007, we completed a public offering of 15,985,000 shares of our Class A common stock as a separately traded security, which includes 2,085,000 shares issued pursuant to the fully exercised underwriters' option to purchase additional shares, at \$13.00 per share. The shares of our separately traded Class A common stock trade on the New York Stock Exchange under the trading symbol "BGS" and trade separately from our Enhanced Income Securities (EISs), which trade on the New York Stock Exchange under the trading symbol "BGF". Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our senior subordinated notes.

The proceeds of the Class A common stock offering were \$193.2 million, after deducting underwriting discounts and commissions and other expenses. In connection with the offering, we repurchased

**B&G Foods, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(1) Nature of Operations (Continued)**

6,762,455 outstanding shares of our Class B common stock for \$82.4 million, and the remaining 793,988 shares of our outstanding Class B common stock were exchanged for an equal number of shares of Class A common stock. See note 9, Related-Party Transactions. We also prepaid \$100.0 million of our term loan borrowings under our senior secured credit facility. The remaining funds are being used for general corporate purposes.

The holders of our EISs may separate each EIS into one share of Class A common stock and \$7.15 principal amount of senior subordinated notes at any time. Upon the occurrence of certain events EISs will automatically separate. Conversely, subject to limitations, a holder of separate shares of Class A common stock and senior subordinated notes can combine such securities to form EISs. Separation and combination of EISs will automatically result in increases and decreases, respectively, in the number of shares of Class A common stock not in the form of EISs. As of September 29, 2007, we had 36,778,988 shares of Class A common stock issued and outstanding, 17,115,567 of which were held in the form of EISs and 19,663,421 of which were held separate from EISs. As of December 30, 2006, we had 20,000,000 shares of Class A common stock issued and outstanding, all of which were held in the form of EISs.

**(2) Summary of Significant Accounting Policies**

***Fiscal Year***

Our financial statements are presented on a consolidated basis. 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. The fiscal years ending December 29, 2007 (fiscal 2007) and December 30, 2006 (fiscal 2006) each contain 52 weeks. Each quarter of fiscal 2007 and fiscal 2006 contains 13 weeks.

***Basis of Presentation***

The accompanying consolidated interim financial statements for the thirteen and thirty-nine week periods ended September 29, 2007 (third quarter of 2007 and first three quarters of 2007) and September 30, 2006 (third quarter of 2006 and first three quarters of 2006) have been prepared by our company in accordance with accounting principles generally accepted in the United States of America without audit, 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

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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 (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary to present fairly our consolidated financial position as of September 29, 2007, the results of our operations for the third quarter and first three quarters of 2007 and 2006, and cash flows for the first three quarters of 2007 and 2006. Our results of operations for the third quarter and first three quarters of 2007 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes for fiscal 2006 included in our Annual Report on Form 10-K/A for fiscal 2006 filed with the SEC on March 9, 2007.

**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 U.S. generally accepted accounting principles 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; purchase accounting allocations; the recoverability of goodwill, trademarks, customer relationship intangibles, property, plant and equipment and deferred tax assets; the accounting for our enhanced income securities (EISs), including their treatment in computing our income tax expense; and the accounting for earnings per share. Actual results could differ from those estimates and assumptions.

*Adoption of New Accounting Standards*

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. We adopted the provisions of FIN 48 at the beginning of fiscal 2007. On May 2, 2007, the FASB issued FASB Staff Position No. 48-1, *Definition of Settlement in FASB Interpretation 48* (FIN 48-1). FIN 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in FIN 48-1 is to be applied upon the initial adoption of FIN 48. Accordingly, we have applied the provisions of FIN 48-1 at the beginning of fiscal 2007. As a result of the adoption of FIN 48, as amended by FIN 48-1, we reclassified \$0.2 million to other non-current liabilities.

We operate in multiple taxing jurisdictions within the United States and Canada and from time to time face audits from various tax authorities regarding the deductibility of certain expenses, state income tax nexus, intercompany transactions, transfer pricing and other matters. At the beginning of fiscal 2007, our liability for unrecognized tax benefits was approximately \$0.2 million (of which the entire amount would impact our effective tax rate if recognized) plus approximately \$0.1 million of accrued interest and penalties. This liability for unrecognized tax benefits all related to state income taxes and Canadian income taxes. During the third quarter of 2007, we paid the Canadian income tax liability in full. There was no material change in the net amount of unrecognized tax benefits during the first three quarters of 2007.

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Although we do not believe that we are currently under examination in any of our major tax jurisdictions, we remain subject to examination in all of our tax jurisdictions until the applicable statutes of limitations expire. As of September 29, 2007, a summary of the tax years that remain subject to examination in our major tax jurisdictions are:



**B&G Foods, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****(2) Summary of Significant Accounting Policies (Continued)**

United States	Federal	2003 and forward
United States	States	2002 and forward
Canada		2006 and forward

Based upon the expiration of statutes of limitations and the conclusion of tax examinations in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by \$0.1 million within twelve months of the reporting date.

Our policy is to classify interest and penalties related to income tax uncertainties as income tax expense.

***Recently Issued Accounting Standards***

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact, if any, of adopting SFAS No. 157 on our consolidated financial statements.

**(3) Inventories**

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

	September 29, 2007		December 30, 2006	
Raw materials and packaging	\$	17,588	\$	11,461
Work in process		3,107		2,587
Finished goods		74,723		64,221
Total	\$	95,418	\$	78,269

**(4) Goodwill, Trademarks and Customer Relationship Intangibles**

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The following table reconciles the changes in the carrying amount of goodwill for the period from December 30, 2006 to September 29, 2007 (dollars in thousands):

Balance at December 30, 2006	\$	198,076
<i>Cream of Wheat acquisition</i>		55,601
Balance at September 29, 2007	\$	253,677

The following table reconciles the changes in the carrying amount of trademarks for the period from December 30, 2006 to September 29, 2007 (dollars in thousands):

## B&amp;G Foods, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## (4) Goodwill, Trademarks and Customer Relationship Intangibles (Continued)

Balance at December 30, 2006	\$	200,220
<i>Cream of Wheat</i> acquisition		27,000
Balance at September 29, 2007	\$	227,220

Customer relationship intangibles are presented at cost, net of accumulated amortization, and are amortized on a straight-line basis over their estimated useful lives of 20 years.

	Customer Relationship Intangibles	Less: Accumulated Amortization (dollars in thousands)	Total
Balance at December 30, 2006	\$ 15,100	\$ (731)	\$ 14,369
<i>Cream of Wheat</i> acquisition	113,900		113,900
Amortization expense		(3,888)	(3,888)
Balance at September 29, 2007	\$ 129,000	\$ (4,619)	\$ 124,381

Amortization expense associated with customer relationship intangibles for the third quarter and first three quarters of 2007 was \$1.6 million and \$3.9 million, respectively, and \$0.2 and \$0.5 million for the third quarter and first three quarters of 2006, respectively, and is recorded in operating expenses. We expect to recognize an additional \$1.6 million of amortization expense associated with customer relationship intangibles during the remainder of fiscal 2007. As of September 29, 2007, amortization of intangible assets is expected to be \$6.5 million for each of the next five succeeding fiscal years.

## (5) Long-term Debt

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

	September 29, 2007	December 30, 2006
Revolving credit facility	\$	\$
Term loan	130,000	25,000
Total senior secured credit facility	130,000	25,000
12.0% Senior Subordinated Notes due October 30, 2016	165,800	165,800

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8.0% Senior Notes due October 1, 2011		240,000		240,000
Total long-term debt	\$	535,800	\$	430,800

## B&amp;G Foods, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## (5) Long-term Debt (Continued)

As of September 29, 2007, the aggregate maturities of long-term debt are as follows (dollars in thousands):

## Years ending December:

2007	\$	
2008		
2009		
2010		
2011		240,000
Thereafter		295,800
Total	\$	535,800

*Senior Secured Credit Facility.* In October 2004, we entered into a \$30.0 million senior secured revolving credit facility. In order to finance the *Grandma's* molasses acquisition, we amended the credit facility in January 2006 to provide for, among other things, a new \$25.0 million term loan and a reduction in the revolving credit facility commitments from \$30.0 million to \$25.0 million. In order to finance the *Cream of Wheat* acquisition, our credit facility was amended and restated in February 2007 to provide for, among other things, an additional \$205.0 million of term loan borrowings. On May 29, 2007, we prepaid \$100.0 million of term loan borrowings. Our \$25.0 million revolving credit facility matures on January 10, 2011 and the remaining \$130.0 million of term loan borrowings matures on February 26, 2013.

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 revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an applicable margin. We pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. Interest under the term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%.

Effective as of February 26, 2007, we entered into a six-year interest rate swap agreement in order to effectively fix at 7.0925% the interest rate payable for \$130.0 million of term loan borrowings. The interest rate for the remaining \$100.0 million of term loan borrowings, which we subsequently prepaid, was 7.36% as of the prepayment date (based upon a three-month LIBOR rate contract that expired on May 25, 2007). The swap is designated as a cash flow hedge under the guidelines of SFAS No. 133. The swap is in place through the life of the term loan, ending on February 26, 2013. Changes in fair value of the swap are recorded in accumulated other comprehensive income (loss), net of tax on our consolidated balance sheet.

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Our obligations under the credit facility 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 facility is secured by substantially all of our and our subsidiaries' assets except our and our subsidiaries' real property. The credit facility provides for mandatory prepayment based on asset dispositions and certain issuances of securities, as defined. The credit facility contains covenants that restrict, among other things, our ability to incur additional indebtedness, pay dividends and create certain liens. The credit facility also contains certain financial maintenance covenants, which, among other things, specify maximum capital expenditure limits, a minimum interest coverage ratio and a maximum senior and total leverage ratio, each ratio as defined. Proceeds of the revolving credit facility are restricted to funding our working capital requirements, capital expenditures and acquisitions of companies in the same line of business as our company, subject to specified criteria. The revolving credit facility remained undrawn through September 29, 2007. The available

**B&G Foods, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(5) Long-term Debt (Continued)**

borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2.6 million, was \$22.4 million at September 29, 2007. The maximum letter of credit capacity under the revolving credit facility is \$10.0 million, with a fronting fee of 3.0% per annum for all outstanding letters of credit.

*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 senior subordinated notes and our senior notes, and management has determined that our subsidiaries that are not guarantors of our senior subordinated notes and senior notes are, individually and in the aggregate, minor subsidiaries as that term is used in Rule 3-10 of Regulation S-X promulgated by the SEC. 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. Consequently, separate financial statements have not been presented for our subsidiaries because management has determined that they would not be material to investors.

*Deferred Financing Costs.* In connection with the issuance of our 12.0% senior subordinated notes due 2016 and our 8.0% senior notes due 2011, we capitalized approximately \$23.1 million of financing costs, which will be amortized over their respective terms. In connection with the issuance of our term loan in January 2006, we capitalized approximately \$0.4 million of additional financing costs, which will be amortized over the term of the loan. In connection with the issuance of additional term loan borrowings of \$205.0 million in February 2007 we capitalized approximately \$4.0 million of additional financing costs. During the second quarter of 2007 we wrote-off and expensed \$1.8 million relating to our May 2007 prepayment of \$100.0 million of term loan borrowings. As of September 29, 2007 and December 30, 2006 we had net deferred financing costs of \$17.1 million and \$17.3 million, respectively.

At September 29, 2007 and December 30, 2006 accrued interest of \$13.7 million and \$8.5 million, respectively, is included in accrued expenses in the accompanying consolidated balance sheets.

**(6) Fair Value of Financial Instruments**

Cash and cash equivalents, trade accounts receivable, income tax receivable, trade accounts payable, accrued expenses 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.

We have outstanding \$240.0 million principal amount of 8.0% senior notes due 2011. The fair value of the senior notes at September 29, 2007 and December 30, 2006, based on quoted market prices, was \$238.8 million and \$244.8 million, respectively.

We also have outstanding \$165.8 million principal amount of 12.0% senior subordinated notes due 2016. Of such outstanding principal amount, \$122.4 million principal amount was represented by 17,115,567 EISs as of September 29, 2007, and \$143.0 million principal amount was represented by 20,000,000 EISs as of December 30, 2006. Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our senior subordinated notes. As of September 29, 2007, the fair value of the EISs, based on the per EIS closing price on the New York Stock Exchange, was \$355.1 million. As of December 30, 2006, the fair value of the EISs, based on the per EIS closing price on the American Stock Exchange, was \$400.4 million. It is not practicable to estimate the fair value of the principal amount of senior subordinated notes represented by EISs.

Of the \$165.8 million aggregate principal amount of senior subordinated notes outstanding, \$43.4 million and \$22.8 million principal amount as of September 29, 2007 and December 30, 2006, respectively, was not represented by EISs and traded separately. The fair value of the separate senior subordinated notes at



**B&G Foods, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****(6) Fair Value of Financial Instruments (Continued)**

September 29, 2007 and December 30, 2006, based on quoted market prices, was \$47.1 million and \$25.5 million.

The carrying value of our term loan borrowings approximates fair value because interest rates under the term loan borrowings are variable, based on prevailing market rates. Our term loan borrowings are subject to the interest rate swap discussed below.

We use an interest rate swap to manage variable interest rate exposure on our \$130.0 million of term loan borrowings. Our objective for holding this derivative is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. Derivative instruments are recognized in other assets or liabilities on our consolidated balance sheet at fair value. We record gains and losses on derivatives qualifying as a cash flow hedge in comprehensive income (loss), to the extent that the hedge is effective and until we recognize the underlying transactions in net income, at which time these gains and losses are reflected in the consolidated statement of operations. Other comprehensive income for the third quarter and for the first three quarters of 2007 includes net unrealized after tax losses of \$2.3 million (\$3.7 million pre-tax) and \$1.1 million (\$1.7 million pre-tax), respectively. The unrealized amounts in comprehensive income (loss) will fluctuate based on changes in the fair value of open contracts during each reporting period. We did not have any derivatives during the first three quarters of 2006.

**(7) Comprehensive Income Recognition**

Comprehensive income includes net income, foreign currency translation adjustments relating to assets and liabilities located in our foreign subsidiaries, amortization of unrecognized prior service cost and pension deferrals and cash flow hedges, net of tax. The components of comprehensive income are as follows (dollars in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net income	\$ 4,846	\$ 3,443	\$ 12,657	\$ 8,704
Other comprehensive income:				
Foreign currency translation adjustments	(32)	(13)	42	50
Amortization of unrecognized prior service cost and pension deferrals, net of tax	5		21	
Mark to market adjustment of cash flow hedge transaction, net of tax	(2,311)		(1,060)	
Comprehensive income	\$ 2,508	\$ 3,430	\$ 11,660	\$ 8,754



**B&G Foods, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited)****(8) Pension Benefits**

Net periodic costs for the third quarter and first three quarters of 2007 and 2006 include the following components (dollars in thousands):

	<b>Thirteen Weeks Ended</b>		<b>Thirty-nine Weeks Ended</b>	
	<b>September 29, 2007</b>	<b>September 30, 2006</b>	<b>September 29, 2007</b>	<b>September 30, 2006</b>
Service cost benefits earned during the period	\$ 332	\$ 367	\$ 1,060	\$ 1,152
Interest cost on projected benefit obligation	322	303	982	909
Expected return on plan assets	(371)	(286)	(1,113)	(869)
Amortization of unrecognized prior service cost	11	16	33	18
Net amortization and deferral	(4)	41	146	146
Net pension cost	\$ 290	\$ 441	\$ 962	\$ 1,356

As of September 29, 2007, we have contributed \$2.1 million to our defined benefit pension plans in fiscal 2007. As of September 29, 2007, we anticipate electing to make additional payments of approximately \$1.6 million for a total contribution of \$3.7 million for fiscal 2007 to fund our defined benefit pension plan obligations.

**(9) Related-Party Transactions**

*Transaction Services Agreement.* We were party to a transaction services agreement pursuant to which Bruckmann, Rosser, Sherrill & Co., Inc. (BRS & Co.), the manager of Bruckmann, Rosser, Sherrill & Co., L.P. (BRS), would be paid a transaction fee for management, financial and other corporate advisory services rendered by BRS & Co. in connection with acquisitions, divestitures, financings and other transactions by our company, which fee would not exceed 1.0% of the total transaction value. BRS was our majority owner prior to our EIS offering in October 2004 and remained a majority owner of our Class B common stock prior to our Class A common stock offering in May 2007. Stephen C. Sherrill, the chairman of our board of directors, is a managing director of BRS & Co. The transaction services agreement provided that transaction fees would be payable as described above unless a majority of disinterested directors determined otherwise. Upon the consummation of the Class A common stock offering, the transaction services agreement was terminated. No transaction fees were paid under the transaction services agreement during fiscal 2007 prior to its termination or during fiscal 2006.

*Roseland Lease.* We lease a manufacturing and warehouse facility from a former chairman of our board of directors under an operating lease, which expires in April 2009. Total rent expense associated with this lease was \$0.6 million for the first three quarters of 2007 and 2006.

*Acquisition of Grandma's Molasses.* On January 10, 2006, through a wholly-owned subsidiary, we acquired the *Grandma's* molasses business from Mott's LLP, a Cadbury Schweppes Americas Beverages company, for \$30.0 million in cash. James R. Chambers, a member of our board of directors has been the President, Cadbury Schweppes Americas Confectionary since July 2005. Mr. Chambers did not participate in the negotiation of the transaction nor did he participate in the board's deliberations or decisions regarding the transaction. Mr. Chambers did not personally have any direct or indirect pecuniary or other interest in the transaction as a result of his position at Cadbury.

*Repurchase and Exchange of Class B Common Stock.* We used a portion of the proceeds of the Class A common stock offering to repurchase 6,762,455 shares of our Class B common stock, which were held by, among others, BRS, Mr. Sherrill and certain of our current and former executive officers, at a per share repurchase price equal to the offering price of our Class A common stock, or \$13.00 per share, less discounts

**B&G Foods, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(9) Related-Party Transactions (Continued)**

and commissions. We also exchanged the remaining 793,988 shares of our Class B common stock, which were held by certain of our current and former executive officers, for an equal numbers of shares of our Class A common stock in order to eliminate all of our outstanding Class B common stock. Our board of directors established a special committee comprised solely of our independent directors to recommend to our board of directors the repurchase price and exchange ratio for our Class B common stock, to negotiate with the holders of the Class B common stock, and to recommend to our board of directors if the transaction was in our best interests and fair to the holders of our Class A common stock. The special committee retained a financial advisor to provide information, advice and analysis to assist the special committee in its review of the proposed transaction. The special committee also engaged its own legal counsel to advise the special committee on its duties and responsibilities. The financial advisor delivered to the special committee an opinion that the proposed consideration to be paid by us to the holders of the Class B common stock was fair to us and the holders of the Class A common stock from a financial point of view. After considering all of the information it had gathered, the special committee recommended to our board of directors that from a valuation standpoint, the purchase price for the Class B common stock to be repurchased should be the offering price of the Class A common stock in the offering, net of underwriting discounts and commissions, and that each share of our Class B common stock to be exchanged should be exchanged for one share of our Class A common stock. The special committee also recommended to our board of directors that based on the repurchase price and Class A and Class B exchange ratio and other material terms of the transaction, the transaction was advisable and in our best interests and fair to the holders of our Class A common stock.

**(10) Commitments and Contingencies**

We are subject to environmental laws and regulations in the normal course of business. Based on our experience to date, management believes that the future cost of compliance with existing environmental laws and regulations (and liability for 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.

We are involved in various claims and legal actions arising in the ordinary course of business, including proceedings involving product liability claims, worker's compensation and other employee claims, and tort and other general liability claims, for which we carry insurance, as well as trademark, copyright, patent infringement and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We have employment agreements with our executive officers. The agreements generally continue until terminated by the executive or by us, and provide for severance payments under certain circumstances. As of September 29, 2007, if all of our executive officers were to be terminated by us without cause (as defined) or as a result of the employees' disability, our severance liability, including salary continuation, continuation of health care and insurance benefits, present value of additional pension credits, and accelerated vesting under compensation plans, would have been approximately \$3.2 million. As of September 29, 2007, if all of our executive officers were to be terminated or deemed terminated by us

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upon a change of control (as defined), our severance liability, including salary continuation, continuation of health care and insurance benefits, present value of additional pension credits, accelerated vesting under compensation plans, and potential excise tax liability and gross up payments, would have been approximately \$5.0 million.

## B&amp;G Foods, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## (11) Earnings per Share

We currently have one class of common stock issued and outstanding, designated as Class A common stock. Prior to May 29, 2007, we had two classes of common stock issued and outstanding, designated as Class A common stock and Class B common stock. For periods in which we had shares of both Class A and Class B common stock issued and outstanding, we present earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings or losses. Net income is allocated between the two classes of common stock based upon the two-class method. Basic and diluted earnings per share for the Class A common stock and Class B common stock is calculated by dividing allocated net income by the weighted average number of shares of Class A common stock and Class B common stock outstanding.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
	(dollars in thousands)			
Net income	\$ 4,846	\$ 3,443	\$ 12,657	\$ 8,704
Less: Class A common stock dividends declared	7,797	4,240	19,834	12,720
Undistributed (loss) earnings available to common stockholders	\$ (2,951)	\$ (797)	\$ (7,177)	\$ (4,016)
<u>Basic and Diluted weighted average common shares outstanding:</u>				
Class A common stock	36,778,988	20,000,000	27,621,225	20,000,000
Class B common stock		7,556,443	4,124,212	7,556,443
<u>Basic and diluted allocation of undistributed (loss) earnings:</u>				
Class A common stock	\$ (2,951)	\$ (578)	\$ (6,245)	\$ (2,915)
Class B common stock		(219)	(932)	(1,101)
Total	\$ (2,951)	\$ (797)	\$ (7,177)	\$ (4,016)
<u>Basic and diluted earnings per share:</u>				
Undistributed (loss) earnings per share:				
Class A common stock	\$ (0.08)	\$ (0.03)	\$ (0.23)	\$ (0.15)
Class B common stock	\$	\$ (0.03)	\$ (0.23)	\$ (0.15)
Distributed earnings:				
Class A common stock	\$ 0.21	\$ 0.21	\$ 0.72(1)	\$ 0.64
Earnings (loss) per share:				
Class A common stock	\$ 0.13	\$ 0.18	\$ 0.49	\$ 0.49
Class B common stock	\$	\$ (0.03)	\$ (0.23)	\$ (0.15)

(1) Distributed earnings differs from actual per share amounts paid as dividends as the earnings per share computation under GAAP requires the use of the weighted average, rather than the actual number of shares

outstanding.

Since May 29, 2007, we no longer have any shares of Class B common stock outstanding. In addition, no dividends on our Class B common stock were ever declared prior to such date. Therefore, for purposes of the earnings per share calculation, all distributed earnings are included in Class A common stock earnings per share.



**B&G Foods, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(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 our customers' financial conditions. As of September 29, 2007, we do not believe we have any significant concentration of credit risk with respect to our trade accounts receivable. Our top ten customers accounted for approximately 44.8% and 43.5% of consolidated net sales for the first three quarters of 2007 and the first three quarters of 2006, respectively. Other than Wal-Mart, which accounted for 11.7% and 10.5% of our consolidated net sales for the first three quarters of 2007 and the first three quarters of 2006, respectively, no single customer accounted for 10.0% or more of our consolidated net sales for the first three quarters of 2007 or the first three quarters of 2006.

During the third quarter of 2007 and 2006 and the first three quarters of 2007 and 2006, respectively, our sales to foreign countries represented less than 1.0% of net sales. Our foreign sales are primarily to customers in Canada.

**(13) Insurance Recovery**

During the fourth quarter of fiscal 2006, we learned of an alleged theft of approximately \$0.8 million over several years at our Roseland, New Jersey manufacturing facility resulting from overpayments allegedly authorized by a former supervisor to direct-store-delivery independent contractor truck drivers. While the cumulative amount of the alleged theft may have been substantial, the related losses were reported in each respective period and discovery of this alleged theft has not resulted in changes to any previously reported results. During the second quarter of 2007, we received insurance proceeds for the entire amount of the loss, which is recorded as an offset to general and administrative expenses.

**(14) Gain on Sale of Property, Plant and Equipment**

On July 1, 2005, we closed our New Iberia, Louisiana, manufacturing facility as part of our ongoing efforts to improve our production capacity utilization, productivity and operating efficiencies, and lower our overall costs. During the thirteen weeks ended December 31, 2005, we began negotiations for the sale of the land and building and classified the land and building, with a carrying value of \$0.8 million, as assets held for sale at such time and ceased depreciation. The sale of our New Iberia facility closed on July 9, 2006. We received net proceeds of \$1.3 million and recorded a gain on the sale of \$0.5 million.

**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 thirty-nine weeks ended September 29, 2007 (third quarter of 2007 and first three quarters of 2007) included elsewhere in this report and the audited consolidated financial statements and related notes for the fiscal year ended December 30, 2006 (fiscal 2006) included in our Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (SEC) on March 9, 2007.

**General**

We manufacture, sell and distribute a diversified portfolio of high quality, shelf-stable, branded food products, many of which have leading regional or national retail market shares. In general, we position our branded products to appeal to the consumer desiring a high quality and reasonably priced branded product.

Our business strategy is to continue to increase sales, profitability and cash available to pay dividends by enhancing our existing portfolio of branded shelf-stable products and by capitalizing on our competitive strengths. We intend to implement our strategy through the following initiatives: profitably growing our established brands, leveraging our unique multiple-channel sales and distribution system, introducing new products, capitalizing on the higher growth Mexican segment of the food industry, designing new products and modifying existing products to address consumer health and wellness concerns such as diabetes and natural/organic foods, and expanding our brand portfolio through acquisitions.

Since 1996, we have successfully acquired and integrated 18 separate brands into our operations. We believe that successful future acquisitions, if any, will enhance our portfolio of existing businesses, further leveraging our existing infrastructure.

We completed the acquisition of the *Grandma's* molasses business from Motts LLP, a Cadbury Schweppes Americas Beverages Company, on January 10, 2006. We completed the acquisition of the *Cream of Wheat* and *Cream of Rice* business from Kraft Foods Global, Inc. effective February 25, 2007. We refer to the *Cream of Wheat* and *Cream of Rice* acquisition as the *Cream of Wheat* acquisition and the *Cream of Wheat* and *Cream of Rice* businesses collectively as the *Cream of Wheat* business. Both the *Grandma's* molasses acquisition and *Cream of Wheat* acquisition have been accounted for using the purchase method of accounting and, accordingly, the assets acquired 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 purchase method of accounting for these acquisitions 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, other raw materials, ingredients and packaging materials from growers, commodity processors, other food companies and packaging manufacturers. Raw materials, ingredients and packaging materials 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. In the third quarter and first three quarters of 2007, our commodity prices for maple syrup and corn sweeteners were higher than those incurred during the thirteen and thirty-nine weeks ended September 30, 2006 (third quarter of 2006 and first three quarters of 2006). In addition, the cost of labor, manufacturing, energy, fuel, packaging materials and other costs related to the

production and distribution of our food products have risen significantly in recent years and at an increasing rate in recent months. We expect that many of these costs will continue to rise for the foreseeable future. We manage these risks by entering into short-term supply contracts and advance commodities purchase agreements from time to time, implementing cost saving measures and, if necessary, by raising sales prices. We cannot assure you that any cost saving measures or sales price increases by us will offset increases to our raw material, ingredient, packaging and distribution costs. To the extent we are unable to offset these cost increases, our operating results will be significantly impacted during the remainder of fiscal 2007 and fiscal 2008.

*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 Customer 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, including the health implications of genetically modified organisms and obesity.

*Changing Valuations of the Canadian Dollar in Relation to the U.S. Dollar.* We purchase the majority of our maple syrup requirements from manufacturers located in Quebec, Canada. Over the past several years the U.S. dollar has weakened against the Canadian dollar, which has in turn increased our costs relating to the production of our maple syrup products.

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 and to address consumer concerns about food safety, quality and health.

#### **Critical Accounting Policies; Use of Estimates**

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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; purchase accounting allocations; the recoverability of goodwill, trademarks, customer relationship intangibles, property, plant and equipment, and deferred tax assets; the accounting for our EISs, including their treatment in computing our income tax expense; and the accounting for earnings per share. Actual results could differ from these estimates and assumptions.

Summaries of our significant accounting policies are described more fully in note 2 to our consolidated financial statements included in our 2006 Annual Report on Form 10-K/A. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

*Trade and Consumer Promotion Expenses*

We offer various sales incentive programs to customers and consumers, such as price discounts, in-store display incentives, slotting fees and coupons. The recognition of expense for these programs involves the use of judgment related to performance and redemption estimates. Estimates are made based on historical

experience and other factors. Actual expenses may differ if the level of redemption rates and performance vary from estimates.

### ***Inventories***

Inventories are stated at the lower of cost or market. 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 our management's review of inventories on hand compared to estimated future usage and sales.

### ***Long-Lived Assets***

Long-lived assets, such as property, plant and equipment, and intangibles with estimated useful lives are depreciated or amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Recoverability of assets held for sale is measured by a comparison of the carrying amount of an asset or asset group to their fair value less estimated cost to sell. Calculating fair value of assets requires significant estimates and assumptions by management.

### ***Goodwill and Trademarks***

Goodwill and intangible assets with indefinite useful lives (trademarks) are tested for impairment at least annually and whenever events or circumstances occur indicating that goodwill or indefinite life intangibles might be impaired.

We perform the annual impairment tests as of the last day of each fiscal year. The annual goodwill impairment test involves a two-step process. The first step of the impairment test involves comparing the fair value of our company with our company's carrying value, including goodwill. If the carrying value of our company exceeds our fair value, we perform the second step of the impairment test to determine the amount of the impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of goodwill with the carrying value of that goodwill and recognizing a loss for the difference. Calculating our fair value requires significant estimates and assumptions by management. We estimate our fair value by applying third party market value indicators to our earnings before interest, taxes, depreciation and amortization (EBITDA). We test indefinite life intangible assets for impairment by comparing their carrying value to their fair value that is determined using a cash flow method and recognize a loss to the extent the carrying value is greater.

We completed our annual impairment tests for fiscal 2006 with no adjustments to the carrying values of goodwill and indefinite life intangibles. We did not note any events or circumstances during the first three quarters of 2007 that would indicate that goodwill or indefinite life intangibles might be impaired.

*Cash Flow Hedge*

We use an interest rate swap to manage variable interest rate exposure on \$130.0 million of term loan borrowings. Our objective for holding this derivative is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. This derivative is recognized in other assets or liabilities on our consolidated balance sheet at fair value. We record gains and losses on derivatives qualifying as a cash flow hedge in comprehensive income (loss), to the extent that the hedge is effective and

until we recognize the underlying transactions in net income, at which time we recognize these gains and losses in our consolidated statement of operations.

The unrealized amounts in comprehensive income (loss) will fluctuate based on changes in the fair value of open contracts during each reporting period. Our interest rate swap, which is described below under *Liquidity and Capital Resources Debt* and in note 5 and note 6 to our consolidated financial statements was an effective hedge for the third quarter and first three quarters of 2007, meaning that it qualified for hedge accounting treatment.

### *Accounting Treatment for EISs*

Our EISs include Class A common stock and senior subordinated notes. Upon completion of our 2004 EIS offering (including the exercise of the over-allotment option), we allocated the proceeds from the issuance of the EISs, based upon relative fair value at the issuance date, to the Class A common stock and the senior subordinated notes. We have assumed that the price paid in the 2004 EIS offering was equivalent to the combined fair value of the Class A common stock and the senior subordinated notes, and the price paid in the offering for the senior subordinated notes sold separately (not in the form of EISs) was equivalent to their initial stated principal amount. Therefore, we have allocated the entire proceeds of the 2004 EIS offering to the Class A common stock and the senior subordinated notes, and the allocation of the EIS proceeds to the senior subordinated notes did not result in a premium or discount.

The Class A common stock portion of each EIS is included in stockholders' equity, net of the related portion of the EIS transaction costs allocated to Class A common stock. Dividends paid on the Class A common stock portion of each EIS are recorded as a decrease to additional paid-in capital when declared by us. The senior subordinated note portion of each EIS is included in long-term debt, and the related portion of the EIS transaction costs allocated to the senior subordinated notes was capitalized as deferred financing costs and is being amortized to interest expense using the effective interest method. Interest on the senior subordinated notes is charged to interest expense as accrued by us and deducted for income tax purposes.

### *Income Tax Expense Estimates and Policies*

As part of the income tax provision process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax expenses together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe the recovery is not likely, we establish a valuation allowance. Further, to the extent that we establish a valuation allowance or increase this allowance in a financial accounting period, we include such charge in our tax provision, or reduce our tax benefits in our consolidated statement of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets.

There are various factors that may cause these tax assumptions to change in the near term, and we may have to record a valuation allowance against our deferred tax assets. We cannot predict whether future U.S. federal and state income tax laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes to the U.S. federal and state income tax laws and regulations on a regular basis and update the assumptions and estimates used to prepare our consolidated financial statements when new regulations and legislation are enacted. We recognize the benefit of an uncertain tax position that we have taken or expect to take on the income tax returns we file if it is more likely than not that such tax position will be sustained based on its technical merits.





***Earnings Per Share***

We currently have one class of common stock issued and outstanding, designated as Class A common stock. Prior to May 29, 2007, we had two classes of common stock issued and outstanding, designated as Class A common stock and Class B common stock. For periods in which we had shares of both Class A and Class B common stock issued and outstanding, we present earnings per share using the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings or losses.

Net income is allocated between the two classes of common stock based upon the two-class method. Basic and diluted earnings per share for the Class A common stock and Class B common stock is calculated by dividing allocated net income by the weighted average number of shares of Class A common stock and Class B common stock outstanding.

***Pension Expense***

We have defined benefit pension plans covering substantially all of our employees. Our funding policy is to contribute annually the amount recommended by our actuaries. The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. We review pension assumptions regularly and we may from time to time make voluntary contributions to our pension plans, which exceed the amounts required by statute. During the third quarter and first three quarters of 2007, we made contributions of \$0.8 million and \$2.1 million, respectively, to our pension plans. During the third quarter and first three quarters of 2006, we made contributions of \$0.6 million and \$1.1 million, respectively, to our pension plans. Changes in interest rates and the market value of the securities held by the plans could materially change, positively or negatively, the underfunded status of the plans and affect the level of pension expense and required contributions during the remainder of fiscal 2007 and beyond.

Our discount rate assumption increased from 5.65% at December 31, 2005 to 5.90% at December 30, 2006 for our pension plans. We presently anticipate that assumption changes, coupled with the amortization of deferred gains and losses will result in a decrease in fiscal 2007 pre-tax pension expense of approximately \$0.3 million. In addition, as a sensitivity measure, a 0.25% decline or increase in our discount rate would increase or decrease our pension expense by approximately \$0.1 million. Similarly, a 0.25% decrease or increase in the expected return on pension plan assets would increase or decrease our pension expense by approximately \$0.1 million.

In August 2006, the Pension Protection Act of 2006 was signed into law. The major provisions of the statute will take effect January 1, 2008. Among other things, the statute is designed to ensure timely and adequate funding of qualified pension plans by shortening the time period within which employers must fully fund pension benefits. We are currently evaluating the effect, if any, that the Pension Protection Act of 2006 will have on future pension funding requirements.

The adoption of SFAS No. 158 as of December 30, 2006 required us to record an incremental after-tax charge of \$1.6 million in accumulated other comprehensive loss related to the unrecognized net actuarial losses and unrecognized prior service costs.

***Acquisition Accounting***

We account for acquired businesses using the purchase method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Our consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. Accordingly, for significant items, we typically obtain assistance from third party valuation specialists.

Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

All of these judgments and estimates can materially impact our results of operations.

## Results of Operations

The following table sets forth the percentages of net sales represented by selected items for the third quarter of 2007 and 2006 and the first three quarters of 2007 and 2006 reflected in our consolidated statements of operations. The comparisons of financial results are not necessarily indicative of future results:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
<b>Statement of Operations:</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	67.3%	71.2%	68.1%	71.5%
Gross profit	32.7%	28.8%	31.9%	28.5%
Sales, marketing and distribution expenses	11.2%	11.3%	11.0%	11.2%
General and administrative expenses	2.9%	1.6%	2.0%	1.7%
Gain on sale of property, plant and equipment		(0.5)%		(0.2)%
Amortization expense customer relationships	1.4%	0.2%	1.1%	0.2%
Operating income	17.2%	16.3%	17.8%	15.7%
Interest expense, net	10.6%	10.8%	11.8%	10.9%
Income before income tax expense	6.7%	5.5%	6.0%	4.7%
Income tax expense	2.5%	2.1%	2.3%	1.8%
Net income	4.1%	3.4%	3.7%	2.9%

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 customers for shipping and handling, less cash discounts, coupon redemptions, slotting fees and trade promotional spending.

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*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 plus freight costs to our distribution centers and to our customers.

*Sales, Marketing and Distribution Expenses.* Our sales, marketing and distribution expenses include costs for marketing personnel, consumer advertising programs, internal sales forces, brokerage costs and warehouse facilities.

*General and Administrative Expenses.* Our general and administrative expenses include administrative employee compensation and benefit costs, as well as information technology infrastructure and communication costs, office rent and supplies, professional services, and other general corporate expenses.

For the first three quarters of 2007, general and administrative expenses is net of \$0.8 million of insurance proceeds relating to a previously reported employee theft.

*Gain on Sale of Property, Plant and Equipment.* Gain on sale of property, plant and equipment includes any gain or loss on the sale of property, plant and equipment.

*Amortization Expenses Customer Relationships.* Amortization expense customer relationships includes the amortization expense associated with customer relationship intangibles and are amortized over their useful lives of 20 years.

*Net Interest Expense.* Net interest expense includes interest relating to our outstanding indebtedness and amortization of deferred debt issuance costs, net of interest income.

#### ***Non-GAAP Financial Measures***

Certain disclosures in this report include non-GAAP (Generally Accepted Accounting Principles) 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 than the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated balance sheets and related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows.

EBITDA is a measure used by management to measure operating performance. EBITDA is defined as net income before net interest expense, income taxes, depreciation, and amortization. Management believes that it is useful to eliminate net interest expense, income taxes, depreciation and amortization 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 in our business operations, among other things, to 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 because we believe it is a useful indicator of our historical debt capacity and ability to service debt and because covenants in our credit facility and the indentures governing the senior notes and the senior subordinated notes contain ratios based on these measures. As a result, internal management reports used during monthly operating reviews feature the EBITDA metric. However, management uses this metric 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 this measure as its only measure of operating performance and liquidity.

EBITDA is not a recognized term under GAAP and does not purport to be an alternative to operating income or net income as an indicator of operating performance or any other GAAP measure. EBITDA is not a complete net cash flow measure because EBITDA is a measure of liquidity that does not include reductions for cash payments for an entity's obligation to service its debt, fund its working capital, capital expenditures and acquisitions, if any, and pay its income taxes and dividends, if any. Rather, EBITDA is a potential indicator of an entity's ability to fund these cash requirements. EBITDA also is not a complete measure of an entity's profitability because it does not include costs and expenses for depreciation and amortization, interest and related expenses and income taxes. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly titled measures of other companies. However, EBITDA can still be useful in evaluating our performance against our peer companies because management believes this measure provides users with valuable insight into key components of GAAP amounts.

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A reconciliation of EBITDA to net income and to net cash provided by operating activities for the third quarter and first three quarters of 2007 and 2006 along with the components of EBITDA follows:

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
	(Dollars in thousands)			
Net income	\$ 4,846	\$ 3,443	\$ 12,657	\$ 8,704
Income tax expense	2,958	2,183	7,725	5,518
Interest expense, net	12,374	11,009	40,028	32,796
Depreciation and amortization	3,843	1,959	9,706	5,863
EBITDA	24,021	18,594	70,116	52,881
Income tax expense	(2,958)	(2,183)	(7,725)	(5,518)
Interest expense, net	(12,374)	(11,009)	(40,028)	(32,796)
Deferred income taxes	3,102	2,116	6,944	4,910
Amortization of deferred financing costs	792	710	2,397	2,122
Gain on sale of property, plant and equipment		(525)		(525)
Write off of deferred debt issuance costs			1,769	
Changes in assets and liabilities, net of effects of business combination	(3,213)	(3,571)	(12,273)	(2,898)
Net cash provided by operating activities	\$ 9,370	\$ 4,132	\$ 21,200	\$ 18,176

*Third quarter of 2007 compared to third quarter of 2006.*

*Net Sales.* Net sales increased \$15.1 million or 14.9% to \$117.0 million for the third quarter of 2007 from \$101.9 million for the third quarter of 2006. The *Cream of Wheat* acquisition accounted for \$15.4 million of the net sales increase offset by a decrease in net sales of \$1.1 million relating to the termination of a temporary co-packing arrangement. The remaining \$0.8 million net sales increase related to increases in sales price and unit volume. Net sales of our lines of *Maple Grove Farms*, *B&M* and *Ortega* products increased in the amounts of \$2.1 million, \$0.5 million and \$0.4 million or 13.6%, 9.2% and 1.8%, respectively. These increases were offset by a reduction in net sales of *Underwood*, *B&G* and *Sa-són* products of \$1.2 million, \$0.6 million and \$0.3 million or 17.7%, 5.7% and 25.3%, respectively. In the aggregate, net sales for all other brands decreased \$0.1 million or 0.3%.

*Gross Profit.* Gross profit increased \$8.9 million or 30.4% to \$38.3 million for the third quarter of 2007 from \$29.4 million for the third quarter of 2006. Gross profit expressed as a percentage of net sales increased 3.9% to 32.7% in the third quarter of 2007 from 28.8% in the third quarter of 2006. The increase in gross profit expressed as a percentage of net sales was primarily due to the positive effect of the *Cream of Wheat* acquisition, which improved our overall gross profit expressed as a percentage of net sales by 5.4%. Our gross profit expressed as a percentage of net sales for all other brands in the aggregate decreased by 1.5% primarily due to the mix of products sold and the higher costs for packaging, corn sweeteners and maple syrup partially offset by sales price increases.

*Sales, Marketing and Distribution Expenses.* Sales, marketing and distribution expenses increased \$1.6 million or 14.4% to \$13.1 million for the third quarter of 2007 from \$11.5 million for the third quarter of 2006. This increase is primarily due to an increase in brokerage and salesmen compensation of \$1.1 million (relating to increased sales volume from the *Cream of Wheat* acquisition and internal sales growth) and an increase in consumer marketing of \$0.5 million. Expressed as a percentage of net sales, our sales, marketing and distribution expenses decreased to 11.2% for the third quarter of 2007 from 11.3% for the third quarter of 2006.



*General and Administrative Expenses.* General and administrative expenses increased \$1.8 million or 111.8% to \$3.4 million for the third quarter of 2007 from \$1.6 million for the third quarter of 2006. The increase primarily resulted from a \$1.4 million accrual relating to special bonus awards to be paid in March 2008 to certain executive officers and members of our senior management in recognition of their

contributions to the successful completion of the *Cream of Wheat* acquisition and the Class A common stock offering. In addition, general and administrative expenses increased by \$0.4 million as a result of an increased incentive compensation accrual relating to our 2007 annual bonus plan. During the fourth quarter of 2007, we expect to accrue an additional expense of \$0.5 million relating to the special bonus awards.

*Gain on Sale of Property, Plant and Equipment.* Gain on sale of property, plant and equipment for the third quarter of 2006 related to the gain on the sale of our New Iberia facility of \$0.5 million. There were no gains or losses on the sale of property, plant and equipment for the third quarter of 2007.

*Amortization Expense Customer Relationships.* Amortization expense customer relationships, all of which relates to the amortization of customer relationship intangibles acquired in the *Grandma's* molasses and *Cream of Wheat* acquisitions, increased \$1.4 million to \$1.6 for the third quarter of 2007 from \$0.2 million for the third quarter of 2006.

*Operating Income.* As a result of the foregoing, operating income increased \$3.6 million or 21.3% to \$20.2 million for the third quarter of 2007 from \$16.6 million for the third quarter of 2006. Operating income expressed as a percentage of net sales increased to 17.2% in the third quarter of 2007 from 16.3% in the third quarter of 2006.

*Net Interest Expense.* Net interest expense increased \$1.4 million or 12.4% to \$12.4 million for the third quarter of 2007 from \$11.0 million in the third quarter of 2006. Our average debt outstanding was approximately \$105.0 million higher for the third quarter of 2007 as compared to the third quarter of 2006. See Liquidity and Capital Resources Debt below.

*Income Tax Expense.* Income tax expense increased \$0.8 million to \$3.0 for the third quarter of 2007 from \$2.2 million for the third quarter of 2006. Our effective tax rate was 37.9% for the third quarter of 2007 and 38.8% for the third quarter of 2006.

***First three quarters of 2007 compared to first three quarters of 2006.***

*Net Sales.* Net sales increased \$38.9 million or 13.0% to \$339.0 million for the first three quarters of 2007 from \$300.1 million for the first three quarters of 2006. The net sales increase for the first three quarters of 2007 included \$34.2 million from the *Cream of Wheat* acquisition offset by a decrease in net sales of \$2.4 million relating to the termination of a temporary co-packing arrangement. The remaining \$7.1 million net sales increase related to increases in sales price and unit volume. Net sales of our lines of *Maple Grove Farms*, *Grandma's*, *Ortega*, *Polaner*, *Las Palmas*, *B&M* and *Joan of Arc* products increased in the amounts of \$7.1 million, \$1.4 million, \$0.8 million, \$0.6 million, \$0.5 million, \$0.4 million and \$0.3 million or 17.1%, 28.7%, 1.2%, 2.2%, 2.7%, 1.9% and 5.0%, respectively. These increases were offset by a reduction in net sales of *Emeril's*, *B&G*, *Regina* and *Underwood* products of \$1.9

million, \$1.0 million, \$0.7 million and \$0.7 million or 12.2%, 2.9%, 8.0% and 4.2%, respectively. In the aggregate, net sales for all other brands increased \$0.3 million or 0.7%.

*Gross Profit.* Gross profit increased \$22.7 million or 26.5% to \$108.3 million for the first three quarters of 2007 from \$85.6 million for the first three quarters of 2006. Gross profit expressed as a percentage of net sales increased 3.4% to 31.9% in the first three quarters of 2007 from 28.5% in the first three quarters of 2006. The increase in gross profit expressed as a percentage of net sales was primarily due to the positive effect of the *Cream of Wheat* acquisition, which improved our overall gross profit expressed as a percentage of net sales by 3.8%. Our gross profit expressed as a percentage of net sales for all other brands in the aggregate decreased by 0.4% primarily due to the mix of products sold and the higher costs for packaging, corn sweeteners and maple syrup partially offset by sales price increases.

*Sales, Marketing and Distribution Expenses.* Sales, marketing and distribution expenses increased \$3.7 million or 10.9% to \$37.2 million for the first three quarters of 2007 from \$33.5 million for the first three

quarters of 2006. The increase is primarily due to an increase in brokerage and salesmen compensation of \$2.3 million (relating to increased sales volume from the *Cream of Wheat* acquisition and internal sales growth), an increase in consumer marketing of \$1.1 million and an increase in distribution costs of \$0.3 million. Expressed as a percentage of net sales, our sales, marketing and distribution expenses decreased to 11.0% for the first three quarters of 2007 from 11.2% for the first three quarters of 2006.

*General and Administrative Expenses.* General and administrative expenses increased \$1.7 million or 34.5% to \$6.8 million for the first three quarters of 2007 from \$5.1 million in the first three quarters of 2006. The increase in general and administrative expenses primarily resulted from an accrual of \$1.4 million for special bonus awards, an increased incentive compensation accrual of \$0.7 million relating to our 2007 annual bonus plan and an increase in other miscellaneous expenses of \$0.4 million, offset by an insurance reimbursement of \$0.8 million relating to a previously reported employee theft. During the fourth quarter of 2007, we expect to accrue an additional expense of \$0.5 million relating to the special bonus awards.

*Gain on Sale of Property, Plant and Equipment.* Gain on sale of property, plant and equipment for the first three quarters of 2006 related to the gain on the sale of our New Iberia facility of \$0.5 million. There were no gains or losses on the sale of property, plant and equipment for the first three quarters of 2007.

*Amortization Expense Customer Relationships.* Amortization expense customer relationships, all of which relates to the amortization of customer relationship intangibles acquired in the *Grandma's* molasses and *Cream of Wheat* acquisitions, increased \$3.4 million to \$3.9 million for the first three quarters of 2007 from \$0.5 million for the first three quarters of 2006.

*Operating Income.* As a result of the foregoing, operating income increased \$13.4 million or 28.5% to \$60.4 million for the first three quarters of 2007 from \$47.0 million for the first three quarters of 2006. Operating income expressed as a percentage of net sales increased to 17.8% in the first three quarters of 2007 from 15.7% in the first three quarters of 2006.

*Net Interest Expense.* Net interest expense increased \$7.2 million or 22.1% to \$40.0 million for the first three quarters of 2007 from \$32.8 million in the first three quarters of 2006. Interest expense for the first three quarters of 2007 included a write-off of deferred financing costs of \$1.8 million relating to our prepayment of \$100.0 million of term loan borrowings with a portion of the proceeds of our public offering of Class A common stock in May 2007. Our average debt outstanding was approximately \$115.0 million higher for the first three quarters of 2007 as compared to the first three quarters of 2006. See [Liquidity and Capital Resources](#) Debt below.

*Income Tax Expense.* Income tax expense increased \$2.2 million or 40.0% to \$7.7 million for the first three quarters of 2007 from \$5.5 million for the first three quarters of 2006. Our effective tax rate was 37.9% for the first three quarters of 2007 and 38.8% for the first three quarters of 2006.

## 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 financing for acquisitions and dividend payments, if any, primarily through cash generated from operations and to the extent necessary, through borrowings under our credit facility.

*Cash Flows.* Cash provided by operating activities increased \$3.0 million to \$21.2 million for the first three quarters of 2007 from \$18.2 million for the first three quarters of 2006. The increase was due to changes relating to an increase in net income, trade accounts payable and accrued expenses offset by an increase in accounts receivable and inventory. Working capital at September 29, 2007 was \$117.4 million, an increase of \$14.4 million over working capital at December 30, 2006 of \$103.0 million.

Net cash used in investing activities for the first three quarters of 2007 was \$211.8 million as compared to \$34.6 million for the first three quarters of 2006. Capital expenditures during the first three quarters of 2007 were \$10.9 million and included expenditures relating to the expansion of our Stoughton, Wisconsin facility and the pending transfer of a portion of the *Cream of Wheat* production to that facility as well as the routine purchase of manufacturing and computer equipment. Capital expenditures during the first three quarters of 2007 were \$5.1 million greater than our capital expenditures of \$5.8 million during the first three quarters of 2006. Investment expenditures for the first three quarters of 2007 included \$200.9 million for the *Cream of Wheat* acquisition. Investment expenditures for the first three quarters of 2006 included \$30.1 million for the *Grandma's* molasses acquisition. We received net proceeds from the sale of property of \$1.3 million during the first three quarters of 2006.

Net cash provided by financing activities for the first three quarters of 2007 was \$195.5 million as compared to \$11.9 million for the first three quarters of 2006. Net cash provided by financing activities for the first three quarters of 2007 consists of \$205.0 million from additional term loan borrowings and \$193.2 million from the issuance of Class A common stock, net of underwriting discounts and commissions and other expenses, offset by \$100.0 million for the prepayment of term loan borrowings, \$82.4 million for the repurchase of Class B common stock, \$16.3 million for the payment of dividends to holders of our Class A common stock and \$4.0 million in debt issuance costs. Net cash provided by financing activities for the first three quarters of 2006 consisted of \$25.0 million from term loan borrowings, offset by \$12.7 million in dividends paid to holders of our Class A common stock and \$0.4 million in debt issuance costs.

Based on a number of factors, including our trademark and goodwill amortization for tax purposes from our prior acquisitions, we realized a significant reduction in cash taxes in 2006 and 2005 as compared to our tax expense for financial reporting purposes. While we expect cash taxes to increase beginning in 2007 as compared to the prior two years, we believe that we will realize a benefit to our cash taxes payable from amortization of our trademarks, goodwill and customer relationship intangibles for the taxable years 2007 through 2022 that will not be reflected in our income tax expense for financial statement purposes.

#### ***Dividend Policy***

Our dividend policy reflects a basic judgment that our stockholders would be better served if we distributed 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 in general distributed as regular quarterly cash dividends (up to the intended dividend rate as determined by our board of directors) to the holders of our common stock and not retained by us. The current intended dividend rate for our Class A common stock is \$0.848 per share per annum.

Dividend payments, however, are not mandatory or guaranteed and holders of our common stock do not have any legal right to receive, or require us to pay, dividends. Furthermore, our board of directors may, in its sole discretion, amend or repeal this dividend policy. Our board of directors may decrease the level of dividends below the intended dividend rate or discontinue entirely the payment of dividends. Future dividends with respect to shares of our common stock, if any, depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. Over time, our EBITDA and capital expenditure, working capital and other cash needs will be subject to uncertainties, which could impact the level of dividends, if any, we pay in the future. The indenture governing our senior subordinated notes, the terms of our revolving credit facility and the indenture governing the senior notes contain significant restrictions on our ability to make dividend payments. In addition, certain provisions of the Delaware General Corporation Law may limit our ability to pay dividends.

As a result of our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities or unanticipated capital expenditure needs or to fund our operations in the event of a significant



business downturn. We may have to forego growth opportunities or capital expenditures that would otherwise be necessary or desirable if we do not find alternative sources of financing. If we do not have sufficient cash for these purposes, our financial condition and our business will suffer.

For the first three quarters of 2007 and 2006, we had cash flows provided by operating activities of \$21.2 million and \$18.2 million, and distributed \$16.3 million and \$12.7 million as dividends, respectively. If our cash flows from operating activities for future periods were to fall below our minimum expectations (or if our assumptions as to capital expenditures or interest expense were too low or our assumptions as to the sufficiency of our revolving credit facility to finance our working capital needs were to prove incorrect), we would need either to reduce or eliminate dividends or, to the extent permitted under the indenture governing our senior notes, the indenture governing our senior subordinated notes and the terms of our credit facility, fund a portion of our dividends with borrowings or from other sources. If we were to use working capital or permanent borrowings to fund dividends, we would have less cash and/or borrowing capacity available for future dividends and other purposes, which could negatively impact our financial position, our results of operations, our liquidity and our ability to maintain or expand our business.

### ***Acquisitions***

Our liquidity and capital resources have been significantly impacted by acquisitions and may be impacted in the foreseeable future by additional acquisitions. We have historically financed acquisitions with borrowings and cash flows from operating activities. Our interest expense has increased significantly as a result of additional indebtedness we have incurred as a result of the *Grandma's* molasses acquisition in January 2006 and the *Cream of Wheat* acquisition in February 2007, and will increase with any additional indebtedness we may incur to finance potential future acquisitions, if any. To the extent future acquisitions, if any, are financed by additional indebtedness, the resulting increase in debt and interest expense could have a negative impact on liquidity.

### ***Environmental and Health and Safety Costs***

We have not made any material expenditures during the first three quarters of 2007 in order to comply with environmental laws or regulations. Based on our experience to date, we believe that the future cost of compliance with existing environmental laws and regulations (and liability for known environmental conditions) will not have a material adverse effect on our consolidated financial condition, 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.

### ***Debt***

*Senior Secured Credit Facility.* In October 2004, we entered into a \$30.0 million senior secured revolving credit facility. In order to finance the *Grandma's* molasses acquisition, we amended the credit facility in January 2006 to provide for, among other things, a new \$25.0 million term loan and a reduction in the revolving credit facility commitments from \$30.0 million to \$25.0 million. In order to finance the *Cream of Wheat* acquisition, our credit facility was amended and restated in February 2007 to provide for, among other things, an additional \$205.0 million of term loan borrowings. On May 29, 2007 we prepaid \$100.0 million of term loan borrowings. Our \$25.0 million revolving credit



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facility matures on January 10, 2011 and the remaining \$130.0 million of term loan borrowings matures on February 26, 2013.

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 revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an applicable margin. We pay a commitment fee of 0.50% per annum on the unused portion of the revolving credit facility. Interest under the

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term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%.

Effective as of February 26, 2007, we entered into a six year interest rate swap agreement in order to effectively fix at 7.0925% the interest rate payable for \$130.0 million of term loan borrowings. The interest rate for the remaining \$100.0 of term loan borrowings, which we subsequently prepaid, was 7.36% as of the prepayment date (based upon a three-month LIBOR rate contract that expired on May 25, 2007). The swap is designated as a cash flow hedge under the guidelines of SFAS No. 133. The swap is in place through the life of the term loan, ending on February 26, 2013. Changes in fair value of the swap are recorded in accumulated other comprehensive income (loss), net of tax on our consolidated balance sheet.

Our obligations under the credit facility 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 facility is secured by substantially all of our and our subsidiaries' assets except our and our subsidiaries' real property. The credit facility provides for mandatory prepayment based on asset dispositions and certain issuances of securities, as defined. The credit facility contains covenants that restrict, among other things, our ability to incur additional indebtedness, pay dividends and create certain liens. The credit facility also contains certain financial maintenance covenants, which, among other things, specify maximum capital expenditure limits, a minimum interest coverage ratio and a maximum senior and total leverage ratio, each ratio as defined. Proceeds of the revolving credit facility are restricted to funding our working capital requirements, capital expenditures and acquisitions of companies in the same line of business as our company, subject to specified criteria. The revolving credit facility was undrawn on the date of consummation of our 2004 EIS offering and concurrent offerings and remained undrawn through September 29, 2007. The available borrowing capacity under our revolving credit facility, net of outstanding letters of credit of \$2.6 million, was \$22.4 million at September 29, 2007. The maximum letter of credit capacity under the revolving credit facility is \$10.0 million, with a fronting fee of 3.0% per annum for all outstanding letters of credit.

*12.0% Senior Subordinated Notes due 2016.* In October 2004, we issued \$165.8 million aggregate principal amount of 12.0% senior subordinated notes due 2016, \$143.0 million of which in the form of EISs and \$22.8 million separate from EISs. As of September 29, 2007, \$122.4 million aggregate principal amount of senior subordinated notes was held in the form of EISs and \$43.4 million aggregate principal amount of senior subordinated notes was held separate from EISs.

Interest on the senior subordinated notes is payable quarterly in arrears on each January 30, April 30, July 30 and October 30 through the maturity date. The senior subordinated notes will mature on October 30, 2016, unless earlier retired or redeemed at our option as described below.

Upon the occurrence of a change of control (as defined in the indenture), unless we have retired the senior subordinated notes or exercised our right to redeem all senior subordinated notes as described below, each holder of the senior subordinated notes has the right to require us to repurchase that holder's senior subordinated notes at a price equal to 101.0% of the principal amount of the senior subordinated notes being repurchased, plus any accrued and unpaid interest to the date of repurchase. In order to exercise this right, a holder must separate the senior subordinated notes and Class A common stock represented by such holder's EISs.

We may not redeem the notes prior to October 30, 2009. However, we may, from time to time, seek to retire the senior subordinated notes through cash repurchases of EISs or separate senior subordinated notes and/or exchanges of EISs or separate senior subordinated 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. We expect that any repurchase of EISs or senior subordinated notes would be funded with our existing cash balances and cash from operations. The amounts involved may be material.



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In addition, on and after October 30, 2009, we may redeem for cash all or part of the senior subordinated notes at a redemption price of 106.0% beginning October 30, 2009 and thereafter at prices declining annually to 100% on or after October 30, 2012. If we redeem any senior subordinated notes, the senior subordinated notes and Class A common stock represented by each EIS will be automatically separated.

The senior subordinated notes are unsecured obligations and are subordinated in right of payment to all of our existing and future senior secured and senior unsecured indebtedness, including the indebtedness under our credit facility and our senior notes. The senior subordinated notes rank *pari passu* in right of payment with any of our other subordinated indebtedness.

The senior subordinated notes are jointly and severally and fully and unconditionally guaranteed by all of our existing domestic subsidiaries and certain future domestic subsidiaries on an unsecured and subordinated basis on the terms set forth in the indenture governing the senior subordinated notes. The senior subordinated note guarantees are subordinated in right of payment to all existing and future senior indebtedness of the guarantors, including the indebtedness under our credit facility and the senior notes. Our present foreign subsidiaries are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of our senior subordinated notes.

The indenture governing the senior subordinated notes contains covenants with respect to us 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; specified creation of liens, sale-leaseback transactions and sales of 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.

*8.0% Senior Notes due 2011.* In October 2004, we issued \$240.0 million aggregate principal amount of 8.0% senior notes due 2011. Interest on the senior notes is payable on April 1 and October 1 of each year. The senior notes will mature on October 1, 2011, unless earlier retired or redeemed at our option as described below.

We may not redeem the notes prior to October 1, 2008. However, we may, from time to time, seek to retire the senior notes through cash repurchases of senior subordinated notes and/or exchanges of 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.

On or after October 1, 2008, we may redeem some or all of the senior notes at a redemption price of 104.0% beginning October 1, 2008 and thereafter at prices declining annually to 100% on or after October 1, 2010. Prior to October 1, 2007, we may redeem up to 35% of the aggregate principal amount of the senior notes issued in the senior note offering with the net proceeds of one or more equity offerings at the redemption price as described in the indenture governing the senior notes. If we or any of the guarantors sell certain assets or experience specific kinds of changes in control, we must offer to purchase the senior notes at the prices as described in the indenture governing the senior notes plus accrued and unpaid interest to the date of redemption.

Our obligations under the 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 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 the 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, including the senior subordinated notes. Our present

foreign subsidiaries

are not guarantors, and any future foreign or partially owned domestic subsidiaries will not be guarantors, of our senior notes.

The indenture governing the 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; specified creation of liens, sale-leaseback transactions and sales of 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.

### ***Future Capital Needs***

We are highly leveraged. On September 29, 2007, our total long-term debt and stockholders' equity was \$535.8 million and \$178.1 million, respectively.

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 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 within our line of business, if any, and pay our anticipated dividends on our Class A common stock. We expect to make capital expenditures of approximately \$13.0 million in the aggregate during fiscal 2007.

### ***Seasonality***

Sales of a number of our products tend to be seasonal. In the aggregate, however, our sales are not heavily weighted to any particular quarter due to the diversity of our product and brand portfolio. Sales during the first quarter of the fiscal year are generally below those of the following three quarters.

We purchase most of the produce used to make our shelf-stable pickles, relishes, peppers and other related specialty items during the months of July through October, and we purchase substantially all of our maple syrup requirements during the months of April through July. Consequently, our liquidity needs are greatest during these periods.

### ***Inflation***

During fiscal 2006 and the first three quarters of 2007, we were faced with increasing prices in certain commodities and packaging materials and we expect this trend may continue. We manage this risk by entering into short-term supply contracts and advance commodities purchase agreements from time to time, and if necessary, by raising prices. Our cost increases in fiscal 2006 and the first three quarters of 2007 were partially attributable to the spike in oil and natural gas prices, which have had a substantial impact on our raw material, packaging and transportation costs. We believe that through sales price increases and our cost saving efforts we have to some degree been able to offset the

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impact of recent raw material, packaging and transportation cost increases. There can be no assurance, however, that any future sales price increases or cost saving efforts by us will offset the increased cost of raw material, packaging and transportation costs, or that we will be able to raise prices or reduce costs at all.

### **Recent Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to

take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is more likely than not that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. We adopted the provisions of FIN 48 at the beginning of fiscal 2007. On May 2, 2007, the FASB issued FASB Staff Position No. 48-1, *Definition of Settlement in FASB Interpretation 48* (FIN 48-1). FIN 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in FIN 48-1 is to be applied upon the initial adoption of FIN 48. Accordingly, we have applied the provisions of FIN 48-1 at the beginning of fiscal 2007. As a result of the adoption of FIN 48, as amended by FIN 48-1, we reclassified \$0.2 million to other non-current liabilities.

We operate in multiple taxing jurisdictions within the United States and Canada and from time to time face audits from various tax authorities regarding the deductibility of certain expenses, state income tax nexus, intercompany transactions, transfer pricing and other matters. At the beginning of fiscal 2007, our liability for unrecognized tax benefits was approximately \$0.2 million (of which the entire amount would impact our effective tax rate if recognized) plus approximately \$0.1 million of accrued interest and penalties. This liability for unrecognized tax benefits all related to state income taxes and Canadian income taxes. During the third quarter of 2007, we paid the Canadian income tax liability in full. There was no material change in the net amount of unrecognized tax benefits during the first three quarters of 2007.

Although we do not believe that we are currently under examination in any of our major tax jurisdictions, we remain subject to examination in all of our tax jurisdictions until the applicable statutes of limitations expire. As of September 29, 2007, a summary of the tax years that remain subject to examination in our major tax jurisdictions are:

United States Federal	2003 and forward
United States States	2002 and forward
Canada	2006 and forward

Based upon the expiration of statutes of limitations and the conclusion of tax examinations in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by \$0.1 million within twelve months of the reporting date.

Our policy is to classify interest and penalties related to income tax uncertainties as income tax expense.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of our 2008 fiscal year. We are currently evaluating the impact, if any, of adopting SFAS No. 157 on our consolidated financial statements.

#### Off-balance Sheet Arrangements

As of September 29, 2007, 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 three quarters of 2007, there were no material changes outside the ordinary course of business in the specified contractual obligations, except that in February 2007 we incurred additional long-term debt of \$205.0 million in the form of additional term loan borrowings under our credit facility, \$100.0 million of which we prepaid in May 2007. As amended, our \$25.0 million revolving credit facility matures on January 10, 2011 and \$130.0 million of our term loan borrowings matures on February 26, 2013. See *Debt - Senior Secured Credit Facility* above. In addition, during the first three quarters of 2007, we made contributions to our defined benefit pension plans of \$2.1 million and currently anticipate electing to make additional payments of approximately \$1.6 million during the remainder of fiscal 2007.

### ***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 transportation, packaging and energy costs;

our ability to successfully implement sales price increases and cost saving measures to offset 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;

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the risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

our ability to maintain access to credit markets and our borrowing costs and credit ratings, which may be influenced by credit markets generally and the credit ratings of our competitors;

the effects of currency movements in Canada; and

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, as well as recent publicity concerning the health implications of obesity;

competitors pricing practices and promotional spending levels; and

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

other factors discussed elsewhere in this report and in our other public filings with the SEC, including under Item 1A, "Risk Factors" in our Annual Report on Form 10-K/A for fiscal 2006.

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. We urge investors not to unduly rely on forward-looking statements contained in this report.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

In the normal course of operations, we are exposed to market risks 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.

Interest under our \$25.0 million revolving credit facility, including any outstanding letters of credit, is determined based on alternative rates that we may choose in accordance with the revolving credit facility, including the base lending rate per annum plus an applicable margin, and LIBOR plus an applicable margin. Interest under our term loan facility is determined based on alternative rates that we may choose in accordance with the credit facility, including the base lending rate per annum plus an applicable margin of 1.00%, and LIBOR plus an applicable margin of 2.00%. The interest rate payable for our \$130.0 million of term loan borrowings is effectively fixed at 7.0925% based upon a six year interest rate swap agreement that we entered into on February 26, 2007.

We also have outstanding \$240.0 million principal amount of 8.0% senior notes due October 1, 2011, with interest payable semiannually on April 1 and October 1 of each year. The fair value of the senior notes at September 29, 2007 and December 30, 2006, based on quoted market prices, was \$238.8 million and \$244.8 million, respectively.

We also have outstanding \$165.8 million principal amount of 12.0% senior subordinated notes due 2016. Of such outstanding principal amount, \$122.4 million principal amount was represented by 17,115,567 EISs as of September 29, 2007, and \$143.0 million principal amount was represented by 20,000,000 EISs as of December 30, 2006. Each EIS represents one share of our Class A common stock and \$7.15 principal amount of our senior subordinated notes. As of September 29, 2007, the fair value of the EISs, based on the per EIS closing price on the New York Stock Exchange was \$355.1 million. As of December 30, 2006, the fair value of the EISs, based on the per EIS closing price on the American Stock Exchange was \$400.4 million. It is not practicable to estimate the fair value of the principal amount of senior subordinated notes represented by EISs.

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Of the \$165.8 million aggregate principal amount of senior subordinated notes outstanding, \$43.4 million and \$22.8 million principal amount as of September 29, 2007 and December 31, 2006, respectively, was not represented by EISs and traded separately. The fair value of the separate senior subordinated notes at September 29, 2007 and December 30, 2006, based on quoted market prices, was \$47.1 million and \$25.5 million, respectively.

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

**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 quarter 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 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.

*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

We are involved in various claims and legal actions arising in the ordinary course of business, including proceedings involving product liability claims, worker's compensation and other employee claims, and tort and other general liability claims, for which we carry insurance, as well as trademark, copyright, patent infringement and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

**Item 1A. Risk Factors**

Except for the additional risk factor set forth in Item 1A to Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 filed with the SEC on July 30, 2007, we do not believe there have been any material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K/A for the year ended December 30, 2006 filed with the SEC on March 9, 2007.

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

Not applicable.

**Item 3.** Defaults Upon Senior Securities

Not applicable.

**Item 4.** Submission of Matters to a Vote of Security Holders

Not applicable.

**Item 5.** Other Information



Not applicable.

**Item 6.** Exhibits

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
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.

**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: October 25, 2007

B&G FOODS, INC.

By: */s/ Robert C. Cantwell*  
Robert C. Cantwell  
Executive Vice President and Chief Financial  
Officer (Principal Financial and Accounting  
Officer and Authorized Officer)