

SANFILIPPO JOHN B & SON INC
Form 10-K
August 27, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended June 25, 2009

**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 0-19681

JOHN B. SANFILIPPO & SON, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or
Organization)

36-2419677

(I.R.S. Employer Identification Number)

1703 North Randall Road

Elgin, Illinois 60123

(Address of Principal Executive Offices, Zip Code)

Registrant's telephone number, including area code: **(847) 289-1800**

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.01 par value per share

The NASDAQ Stock Market LLC
(NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No .

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, as amended (the Exchange Act), 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting Common Stock held by non-affiliates was \$36,386,517 as of December 25, 2008 (7,858,859 shares at \$4.63 per share).

As of August 27, 2009, 8,022,699 shares of the Company's Common Stock, \$.01 par value ("Common Stock") and 2,597,426 shares of the Company's Class A Common Stock, \$.01 par value ("Class A Stock"), were outstanding. The Class A Stock is convertible at the option of the holder at any time and from time to time (and, upon the occurrence of certain events specified in the Restated Certificate of Incorporation, automatically converts) into one share of Common Stock.

Documents Incorporated by Reference:

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Stockholders to be held October 28, 2009 are incorporated by reference into Part III of this Report.

PART I

Item 1 Business

a. General Development of Business

(i) Background

John B. Sanfilippo & Son, Inc. was formed as a corporation under the laws of the State of Delaware in 1979 as the successor by merger to an Illinois corporation that was incorporated in 1959. As used throughout this annual report on Form 10-K, unless the context otherwise indicates, the terms we, us, our or our Company refer collectively to John B. Sanfilippo & Son, Inc. and its wholly-owned subsidiary, JBSS Properties, LLC. Our fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters). References herein to fiscal 2010, 2009, 2008 and 2007 are to the fiscal years that will end, or ended, June 24, 2010, June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

We are one of the leading processors and marketers of tree nuts and peanuts in the United States. These nuts are sold under a variety of private labels and under the *Fisher*, *Flavor Tree*, *Sunshine Country* and *Texas Pride* brand names. We also market and distribute, and in most cases manufacture or process, a diverse product line of food and snack products, including peanut butter, natural snacks and trail mixes, sunflower seeds, sesame sticks and other sesame snack products.

Our Internet website is accessible to the public at <http://www.jbssinc.com>. Information about us, including our code of ethics, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are made available free of charge through our Internet website as soon as reasonably practicable after such reports have been filed with the United States Securities and Exchange Commission (the SEC). Our materials filed with the SEC are also available on the SEC's website at <http://www.sec.gov>. The public may read and copy any materials we file with the SEC at the SEC's public reference room at 450 Fifth St., NW, Washington, DC 20549. The public may obtain information about the reference room by calling the SEC at 1-800-SEC-0330.

Our headquarters and executive offices are located at 1703 North Randall Road, Elgin, Illinois 60123, and our telephone number for investor relations is (847) 289-1800, extension 4612.

(ii) Facility Consolidation Project

In August 2008, we completed the consolidation of our Chicago-based facilities into a new facility in Elgin, Illinois (the New Site). As part of the facility consolidation project, on April 15, 2005, we closed on the \$48.0 million purchase of the New Site. We transferred our primary Chicago area distribution facility from a leased location to the New Site in July 2006. Processing operations began at the New Site in the second quarter of fiscal 2007, with operations moving from the existing Chicago area locations, and new equipment installed, from the second quarter of fiscal 2007 through the end of August 2008. Our headquarters were relocated to the New Site in February 2007. The facility consolidation project has generated cost savings through the elimination of redundant costs, such as interplant freight. However, we have not yet realized the expected improvements in manufacturing efficiencies. Also, the New Site is designed to accommodate an increase in production capacity of 25% to 40% in part because the New Site provides substantially more square footage than the aggregate space previously available in our Chicago area facilities. The facility consolidation project will allow us to pursue certain new business opportunities that were not previously available to us due to lack of production capacity. However, the benefits of the facility consolidation project will not be realized as expected unless our sales volume improves in the future. Some of the initiatives that we implemented in fiscal 2008 and fiscal 2009 to improve our operating performance, such as eliminating production of unprofitable products, have decreased our sales volume. The decrease in sales volume has in the past and may in the future negatively impact our ability to benefit from the facility consolidation project. If we are unable to obtain a sufficient level of new profitable sales, our ability to benefit from the facility consolidation project and our financial performance will be negatively impacted. See Part I, Item 1A Risk Factors.

b. Segment Reporting

We operate in a single reportable operating segment that consists of selling various nut products through multiple distribution channels.

c. Narrative Description of Business

(i) General

As stated above, we are one of the leading processors and marketers of tree nuts and peanuts in the United States. Through a deliberate strategy of capital expenditures and complementary acquisitions, we have built a generally vertically integrated nut processing operation that enables us to control almost every step of the process for pecans, peanuts and walnuts, including procurement from growers, shelling, processing, packing and marketing. Vertical integration allows us to enhance product quality and, in most crop years, to capture additional processing margins with respect to pecans, peanuts and walnuts. Our vertically integrated business model typically has worked to our advantage. Our generally vertically integrated model, however, can under certain circumstances result in poor earnings or losses. See Item 1A Risk Factors .

Our products are sold through the major distribution channels to significant buyers of nuts, including food retailers, industrial users for food manufacturing, food service companies and international customers. Selling through a wide array of distribution channels allows us to generate multiple revenue opportunities for the nuts we process. For example, whole cashews could be sold to food retailers and cashew pieces could be sold to industrial users. We process and sell all major nut types consumed in the United States, including peanuts, pecans, cashews, walnuts and almonds in a wide variety of package styles, whereas most of our competitors focus either on fewer nut types or narrower varieties of packaging options. We process all major nut types, thus offering our customers a complete nut product offering.

(ii) Principal Products

Our principal products are raw and processed nuts. These products accounted for approximately 89.2%, 91.8% and 92.2% of our gross sales for fiscal 2009, fiscal 2008 and fiscal 2007, respectively. The nut product line includes peanuts, almonds, Brazil nuts, pecans, pistachios, filberts, cashews, English walnuts, black walnuts, pine nuts and macadamia nuts. Our nut products are sold in numerous package styles and sizes, from poly-cellophane packages, environmentally friendly packages, composite cans, vacuum packed tins and plastic jars for retail sales, to large cases and sacks for bulk sales to industrial and food service customers. In addition, we offer our nut products in a variety of different styles and seasonings, including natural, blanched, oil roasted, dry roasted, unsalted, honey roasted, flavored, spicy, butter toffee, praline and cinnamon toasted. We sell our products domestically to retailers and wholesalers as well as to industrial, food service and contract packaging customers. We also sell certain of our products to foreign customers in the retail, food service and industrial markets.

We acquire a substantial portion of our peanut, pecan and walnut requirements directly from domestic growers. The balance of our raw nut supply is purchased from importers, traders and domestic processors. In fiscal 2009, the majority of our peanuts, pecans and walnuts were shelled at one of our four shelling facilities, and the remaining portion were purchased shelled from processors. See Raw Materials and Supplies and Item 2(b) Properties Manufacturing Capability, Utilization, Technology and Engineering below.

We manufacture and market peanut butter in several sizes and varieties, including creamy, crunchy and natural. We also market and distribute, and in many cases process and manufacture, a wide assortment of other food and snack products. These other products include: snack mixes, salad toppings, natural snacks, trail mixes, dried fruit and chocolate and yogurt coated products sold to retailers and wholesalers; baking ingredients sold to retailers, wholesalers, industrial and food service customers; bulk food products sold to retail and food service customers; an assortment of sunflower seeds, snack mixes, sesame sticks and other sesame snack products sold to retail supermarkets, vending companies, mass merchandisers and industrial customers; and a wide variety of toppings for ice cream and yogurt sold to food service customers.

(iii) Customers

We sell products to approximately 1,150 customers, including approximately 100 international accounts. Retailers of our products include grocery chains, mass merchandisers, drug store chains, convenience stores and membership clubs. Sales to Wal-Mart Stores, Inc. accounted for approximately 19%, 19% and 20% of our net sales for fiscal 2009, fiscal 2008 and fiscal 2007, respectively. Wholesale distributors purchase products from us for resale to regional retail grocery chains and convenience stores. Our industrial customers include bakeries, ice cream and candy manufacturers and other food and snack processors. Food service customers include hospitals, schools, universities, airlines, retail and wholesale restaurant businesses and national food service franchises. In addition, we package and distribute products manufactured or processed by others.

(iv) Sales and Distribution

We market our products through our own sales department and through a network of approximately 90 independent brokers and various independent distributors and suppliers.

We distribute products from our Illinois, Georgia, California, North Carolina and Texas production facilities and from public warehouse and distribution facilities located in various other states. The majority of our products are shipped from our production, warehouse and distribution facilities by contract and common carriers.

In the Chicago area, we operate an outlet store at our production facility and at four other locations. These stores sell bulk foods and other products produced by us and other vendors.

(v) Marketing

Marketing strategies are developed by distribution channel. Private label and branded consumer efforts are focused on building brand awareness, introducing new products, attracting new customers and increasing consumption in the snack and baking nut categories. Industrial and food service efforts are focused on trade-oriented marketing.

Our consumer promotional campaigns include newspaper and radio advertisements, coupon offers and co-op advertising with select retail customers. We also conduct integrated marketing campaigns using multiple media outlets for the promotion of the Fisher brand, including sports marketing. Additionally, shipper display units are utilized in retail stores in an effort to gain additional temporary product placement and to drive sales volume.

Industrial and food service trade promotion includes attending regional and national trade shows, trade publication advertising and one-on-one marketing. These promotional efforts highlight our processing capabilities, broad product portfolio, product customization and packaging innovation. Additionally, we have established a number of co-branding relationships with industrial and food service customers.

Through participation in several trade associations, funding of industry research and sponsorship of educational programs, we support efforts to increase awareness of the health benefits, convenience and versatility of nuts as both a snack and a recipe ingredient among existing and future consumers of nuts.

(vi) Competition

Our nuts and other snack food products compete against products manufactured and sold by numerous other companies in the snack food industry, some of whom are substantially larger and have greater resources than us. In the nut industry, we compete with, among others, Planters, Ralcorp Holdings, Inc., Diamond Foods, Inc. and numerous regional snack food processors. Competitive factors in our markets include price, product quality, customer service, breadth of product line, brand name awareness, method of distribution and sales promotion. The combination of our generally vertically integrated operating model with respect to pecans, peanuts and walnuts, our product quality, product offering, brand strength and distribution model generally enable us to compete effectively in each of these categories, but see Item 1A Risk Factors below.

(vii) Raw Materials and Supplies

We purchase nuts from domestic and foreign sources. In fiscal 2009, all of our walnuts and almonds were purchased from domestic sources. The great majority of peanuts were also purchased from domestic sources. We purchase our pecans from the southern United States and Mexico. Cashew nuts are imported from India, Africa, Brazil and Southeast Asia. For fiscal 2009, approximately 31% of our nut purchases were from foreign sources.

Competition in the nut shelling industry is driven by shellers' ability to access and purchase raw nuts, to shell the nuts efficiently and to sell the nuts to processors. We shell all major domestic nut types, with the exception of almonds, and are among a select few shellers who further process, package and sell nuts to the end-user. Raw material pricing pressure and the high cost of equipment automation have contributed to a consolidation among shellers across all nut types, especially peanuts and pecans.

We are generally vertically integrated with respect to pecans, peanuts and walnuts and, unlike our major retail competitors who purchase nuts on the open market, we purchase a majority of our pecans, peanuts and walnuts directly from growers. There are risks associated with vertical integration such as susceptibility to market declines for pecans, peanuts and walnuts. See Item 1A Risk Factors below.

We sponsor a seed exchange program under which we provide peanut seed to growers in return for a commitment to repay the dollar value of that seed, plus interest, in the form of farmer stock inshell peanuts at harvest. Approximately 73% of the farmer stock peanuts we purchased in fiscal 2009 were grown from seed provided by us. We also contract for the growing of a limited number of generations of peanut seeds to increase seed quality and maintain desired genetic characteristics of the peanut seed used in processing. Our peanut seed is not genetically modified.

The availability and cost of raw materials for the production of our products, including pecans, peanuts, walnuts, almonds, other nuts, roasting oil, sugar, dried fruit, seeds and chocolate, are subject to crop size and yield fluctuations caused by factors beyond our control, such as weather conditions, plant diseases and changes in customer demand.

These fluctuations can adversely impact our profitability. For example, our costs to acquire raw peanuts and cashews in fiscal 2008 increased, in part, due to adverse weather conditions. Additionally, the supply of edible nuts and other raw materials used in our products could be reduced by any future product recalls or upon a determination by the USDA or any other government agency that certain pesticides, herbicides or other chemicals used by growers have left harmful residues on portions of the crop or that the crop has been contaminated by aflatoxin or other agents.

Due, in part, to the seasonal nature of the industry, we maintain significant inventories of peanuts, pecans and walnuts at certain times of the year, especially in the second and third quarters of our fiscal year. Fluctuations in the market price of pecans, peanuts and walnuts and other nuts may affect the value of our inventory and thus may also affect our gross profit and gross profit margin. See Part I, Item 1A Risk Factors.

We purchase other inventory items such as roasting oils, seasonings, plastic jars, labels, composite cans and other packaging materials from related parties and third parties.

(viii) Trademarks and Patents

We market our products primarily under private labels and the *Fisher*, *Sunshine Country*, *Flavor Tree* and *Texas Pride* brand names, which are registered as trademarks with the U.S. Patent and Trademark Office as well as in various other jurisdictions. We also own several patents of various durations. We expect to continue to renew for the foreseeable future those trademarks that are important to our business.

(ix) Employees

As of June 25, 2009, we had approximately 1,350 full-time employees, including approximately 160 corporate staff employees. Our labor requirements typically peak during the last quarter of the calendar year, at which time additional contract labor is generally used to supplement the full-time work force.

(x) Seasonality

Our business is seasonal. Demand for peanut and tree nut products is highest during the last four months of the calendar year. Pecans and walnuts, two of our principal raw materials, are primarily purchased between August and February and are processed throughout the year until the following harvest. As a result of this seasonality, our personnel requirements rise during the last four months of the calendar year. Our working capital requirements generally peak during the third quarter of our fiscal year. See Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Introduction and Part II, Item 8 Financial Statements and Supplementary Data .

(xi) Backlog

Because the time between order and shipment is usually less than three weeks, we believe that any backlog as of a particular date is not material to an understanding of our business as a whole.

(xii) Operating Hazards and Uninsured Risks

The sale of food products for human consumption involves the risk of injury to consumers as a result of product contamination or spoilage, including the presence of foreign objects, insects, substances, chemicals, aflatoxin and other agents, or residues introduced during the growing, storage, handling or transportation phases. Although we (i) maintain what we believe to be rigid quality control standards and food safety systems, (ii) generally inspect our products by visual examination, metal detectors or electronic monitors at various stages of our shelling and processing operations for all of our nut and other food products, (iii) permit the USDA to inspect all lots of peanuts shipped to and from our peanut shelling facilities, (iv) maintain environmental pathogen programs, and (v) seek to comply with the Nutrition Labeling and Education Act by labeling each product that we sell with labels that disclose the nutritional value and content of each of our products, no assurance can be given that some nut or other food products sold by us may not contain or develop harmful substances. In order to mitigate this risk, we currently maintain product liability insurance of \$1 million per occurrence, \$2 million aggregate and umbrella coverage of up to \$50 million. In an effort to mitigate some of the risks of product recalls, we obtained \$5 million coverage for contaminated product insurance during fiscal 2009.

Item 1A Risk Factors

We face a number of significant risks and uncertainties, and therefore, an investment in our common stock is subject to risks and uncertainties. The factors described below could materially adversely affect our business, results of operations and financial condition. While each risk is described separately, some of these risks are interrelated and it is possible that certain risks could trigger the applicability of other risks described below. Also, the risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that are currently deemed immaterial, could also potentially impair our business, results of operations and financial condition. Investors should consider the following factors, in addition to the other information contained in this Annual Report on Form 10-K, before deciding to purchase our common stock.

We Cannot Control the Availability of Raw Materials and Market Price Fluctuations

The availability and cost of raw materials for the production of our products, including peanuts, pecans, almonds, walnuts and other nuts are subject to crop size and yield fluctuations caused by factors beyond our control, such as weather conditions, plant diseases, changes in customer demand and changes in government programs. Additionally, any determination by the United States Department of Agriculture (USDA) or other government agencies that certain pesticides, herbicides or other chemicals used by growers have left harmful residues on portions of the crop or that the crop has been contaminated by aflatoxin or other agents or any future product recalls could reduce the supply of edible nuts and other raw materials used in our products. Furthermore, we are not able to hedge against changes in commodity prices because no appropriate futures or other market exists, and thus, shortages in the supply of and increases in the prices of nuts and other raw materials we use in our products (to the extent that cost increases cannot be passed on to customers) could have an adverse impact on our profitability. Furthermore, fluctuations in the market prices of nuts may affect the value of our inventories and profitability. We have significant inventories of nuts that would be adversely affected by any decrease in the market price of such raw materials. See Part II, Item 7

Management's

Discussion and Analysis of Financial Condition and Results of Operations Introduction .

Significant Private Label Competitive Activity Can Lead to Price Declines

Some customer buying decisions are based upon a periodic bidding process in which the successful bidder is assured the selling of its selected product to the food retailer, super center or mass merchandiser until the next bidding process. Our sales volume may decrease significantly if our offer is too high and we lose the ability to sell products through these channels, even temporarily. Alternatively, we risk reducing our margins if our offer is successful but below our desired price points. Either of these outcomes may adversely affect our results of operations.

Our Inability to Successfully Manage the Price Gap Between our Private Label Products and Those of our Branded Competitors May Adversely Affect our Results of Operations

Although demand for private label products has increased under current economic conditions, competitors' branded products have certain advantages over our private label products primarily due to advertising and name recognition. When branded competitors focus on price and promotion, the environment for private label products becomes more challenging because the price gaps between private label and branded products can become less meaningful.

At the retail level, private label products sell at a discount to those of branded competitors. If branded competitors continue to reduce the price of their products, the price of branded products offered to consumers may approximate the prices of our private label products. Further, promotional activities by branded competitors such as temporary price rollbacks, buy-one-get-one-free offerings and coupons have the effect of price decreases. Price decreases taken by competitors could result in a decline in our sales volumes.

A Shift to Branded Products Could Adversely Impact our Results of Operations

We have benefited from the increased demand for private label products under current economic conditions. Improved economic conditions in the future could cause a shift back towards branded products. While we have made investments in developing our Fisher and other brands, there can be no assurance as to the impact on us of a change in consumer preference.

We Enter Into Fixed Price Commitments

The great majority of our industrial sales customers, and certain other customers, require us to enter into fixed price commitments with them. Such commitments represented approximately 15% of our annual net sales in fiscal 2009. In most cases, the fixed price commitments are entered into after our cost to acquire the nut products necessary to satisfy the fixed price commitments are substantially fixed. The commitments are for a fixed period of time, typically one year, but may be extended if remaining balances exist. However, sometimes we enter into fixed price commitments with respect to certain of our nut products before fixing our acquisition cost in order to maintain customer relationships or when, in management's judgment, market or crop harvest conditions so warrant. To the extent we do so, however, these fixed price commitments may result in reduced or negative gross profit margins that have a material adverse effect on our results of operations.

We have a Generally Vertically Integrated Model With Respect to Pecans, Peanuts and Walnuts

We have a generally vertically integrated nut processing operation that enables us to control almost every step of the process for pecans, peanuts and walnuts, including procurement from growers. Our vertically integrated model has in the past resulted, and may in the future result, in significant losses because we are subject to the various risks associated with purchasing a majority of our pecans, peanuts and walnuts directly from growers, including the risk of purchasing such products from growers at prices that later, due to altered market conditions, prove to be above market prices. Accordingly, because we purchase a majority of our pecans, peanuts and walnuts directly from growers using fixed price contracts, some of which are entered into before harvest, there is a possibility that after we enter into the fixed price contracts, market conditions may change, and we will be forced to sell these nuts at a loss.

We Operate in a Competitive Environment

We operate in a highly competitive environment. Our principal products compete against food and snack products manufactured and sold by numerous regional and national companies, some of which are substantially larger and have greater resources than us, such as Planters, Ralcorp Holdings, Inc. and Diamond Foods, Inc. For example, our Fisher brand has declined in market share in recent years in part because the companies who sell and market the other top branded nut products have committed significantly more resources to such brands when compared to the resources spent by us on our Fisher brand. Our retail competitors buy their nuts on the open market and are thus not exposed to the risks of purchasing raw pecans, peanuts and walnuts directly from growers at fixed prices that later, due to altered market conditions, prove to be above market prices. We also compete with other shellers in the industrial market and with regional processors in the retail and wholesale markets. In order to maintain or increase our market share, we must continue to price our products competitively, which may lower revenue per unit and cause declines in gross margin, if we are unable to increase unit volumes as well as reduce our costs.

We are Dependent Upon Certain Significant Customers

We are dependent on a few significant customers for a large portion of our total sales, particularly in the consumer channel. Sales to our five largest customers represented approximately 43%, 40% and 40% of gross sales in fiscal 2009, fiscal 2008 and fiscal 2007, respectively. Wal-Mart alone accounted for approximately 19%, 19% and 20% of our net sales for fiscal 2009, fiscal 2008 and fiscal 2007, respectively. We recently lost our business with one of our five largest customers, representing 4% of our total sales. With this lost business, a loss of one of our other largest customers or a material decrease in purchases by one of our other largest customers would result in decreased sales and adversely impact our results of operations and cash flow.

We are Subject to Pricing Pressures

As the retail grocery trade continues to consolidate and our retail customers grow larger and become more sophisticated, our retail customers are demanding lower pricing and increased promotional programs. Further, these customers may begin to place a greater emphasis on the lowest-cost supplier in making purchasing decisions. An increased focus on the lowest-cost supplier could reduce the benefits of some of our competitive advantages. Our sales volume growth could suffer, and it may become necessary to lower our prices and increase promotional support of our products, any of which would adversely affect our gross profit and gross profit margin.

Food Safety and Product Contamination Concerns Could Have a Material Adverse Effect on Us

If consumers in our principal markets lost confidence in the safety of nut products, particularly with respect to peanut and tree nut allergies, food borne illnesses or other food safety matters, this could adversely affect us. Individuals with nut allergies may be at risk of serious illness or death resulting from the consumption of our nut products, including consumption of other companies' products containing our products as an ingredient. Notwithstanding existing food safety controls, we process peanuts and tree nuts on the same equipment, and there is no guarantee that our products will not be cross-contaminated. Concerns generated by risks of peanut and tree nut cross-contamination and other food safety matters, including food borne illnesses, may discourage consumers from buying our products, cause production and delivery disruptions, or result in product recalls. Product safety issues (i) concerning products not manufactured, distributed or sold by our Company, such as recent safety issues concerning salmonella found in peanut butter and (ii) concerning products we manufacture, distribute and sell, such as recent safety issues at our supplier concerning salmonella found in pistachios, may adversely affect demand for products in the nut industry as a whole, including products without actual safety problems. Decreases in demand for products in the industry generally could have a material adverse affect on our Company's financial condition and results of operations. In addition, the cooling system at the Elgin, Illinois facility utilizes ammonia. If a leak in the system were to occur, there is a possibility that the inventory in cold storage at the Elgin, Illinois facility could be destroyed.

Product Liability and Product Recalls May Have a Material Adverse Effect on Us

We face risks associated with product liability claims and product recalls in the event our food safety and quality control procedures are ineffective or fail, we procure products from third parties that are or become subject to a recall, regardless of whether or not our food safety and quality control procedures are ineffective or fail, or our products cause injury or become adulterated or misbranded. In addition, we do not control the labeling of other companies products containing our products as an ingredient. A product recall of a sufficient quantity, a significant product liability judgment against us, or other safety concerns could cause our products to be unavailable for a period of time and could result in a loss of consumer confidence in our products. If these kinds of events were to occur, they would have a material adverse effect on the demand for our products and, consequently, our results of operations and cash flows.

We are Dependent on Certain Key Personnel

Our future success will be largely dependent on the personal efforts of our senior operating management team, including Jeffrey T. Sanfilippo, Chief Executive Officer, Michael J. Valentine, Chief Financial Officer and Group President, James A. Valentine, Chief Information Officer and Jasper B. Sanfilippo, Jr., Chief Operating Officer and President. In addition, our success also depends on the talents of Everardo Soria, Senior Vice President Pecan Operations and Procurement, Walter R. Tankersley, Jr., Senior Vice President Industrial Sales and Michael G. Cannon, Senior Vice President of Corporate Operations. We believe that the expertise and knowledge of these individuals in the industry, and in their respective fields, is a critical factor to our growth and success. We have not entered into an employment agreement with any of these individuals, nor do we have key officer insurance coverage policies in effect. The loss of the services of any of these individuals could have a material adverse effect on our business and prospects if we were unable to identify a suitable candidate to replace any such individual. Our success is also dependent upon our ability to attract and retain additional qualified personnel, and there can be no assurance that we will be able to do so.

We are Subject to Risks and Uncertainties Regarding Our Facility Consolidation Project

Our Company's New Site, in which we have invested a total of over \$100 million, may not result in significant cost savings or increases in efficiency, or allow us to increase our production capabilities to meet any future increases in customer demand that exceed the capacity made available by the facility consolidation project. Moreover, our expectations with respect to the financial impact of the New Site are based on numerous estimates and assumptions, any or all of which may differ from actual results. Such differences could substantially reduce the anticipated benefit of the project or cause losses or adverse financial consequences. More specifically:

- sales volume may continue to decrease, in part because of our voluntary elimination of non-profitable products, and we may not realize any future overall increases in demand for our products necessary to justify additional production capacity available at the New Site;

- we may not achieve the planned levels of increased efficiencies at the New Site;

- we may not obtain tenants or receive rental income for the unused portions of the New Site;

- we may not be able to recover our investment in the Original Site (as defined below in Item 2(a)).

If, for any reason, we were to realize less than the expected benefits from the New Site, our future income stream, cash flows and debt levels could be materially adversely affected. In addition, the New Site does not have a long history and therefore unanticipated risks and problems may develop in the future.

We are Subject to Government Regulation

We are subject to extensive regulation by the United States Food and Drug Administration, the USDA, the United States Environmental Protection Agency and other state, local and foreign authorities in jurisdictions where our products are manufactured, processed or sold. Among other things, these regulations govern the manufacturing, importation, processing, packaging, storage, distribution and

labeling of our products. Our manufacturing and processing facilities and products are subject to periodic compliance inspections by federal, state, local and foreign authorities. We are also subject to environmental regulations governing the discharge of air emissions, water and food waste, the usage and storage of pesticides, and the generation, handling, storage, transportation, treatment and disposal of waste materials. Amendments to existing statutes and regulations, adoption of new statutes and regulations, increased production at our existing facilities as well as our expansion into new operations and jurisdictions, may require us to obtain additional licenses and permits and could require us to adapt or alter methods of operations at costs that could be substantial. Compliance with applicable laws and regulations may adversely affect our business. Failure to comply with applicable laws and regulations could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as possible criminal sanctions, which could have a material adverse effect on our business.

Economic, Political and Social Risks of Doing Business in Emerging Markets May Have a Material Adverse Effect on Us

We purchase our cashew inventories from India, Africa, Brazil and Southeast Asia, which are in many respects emerging markets. To this extent, we are exposed to risks inherent in emerging markets, including:

increased governmental ownership and regulation of the economy;

greater likelihood of inflation and adverse economic conditions stemming from governmental attempts to reduce inflation, such as imposition of higher interest rates and wage and price controls;

potential for contractual defaults or forced renegotiations on purchase contracts with limited legal recourse;

tariffs and other barriers to trade that may reduce our profitability; and

civil unrest and significant political instability.

The existence of these risks in these and other foreign countries that are the origins of our raw materials could jeopardize or limit our ability to purchase sufficient supplies of cashews and other imported raw materials and may adversely affect our results of operations by increasing the costs of doing business overseas.

The Way in Which We Measure Inventory May Have a Material Adverse Effect on Us

We acquire our inshell nut inventories of pecans, peanuts and walnuts from growers and farmers in large quantities at harvest times, which are primarily during the second and third quarters of our fiscal year, and receive nut shipments in bulk truckloads. The weights of these nuts are measured using truck scales at the time of receipt, and inventories are recorded on the basis of those measurements. The nuts are then stored in bulk in large warehouses to be shelled or processed throughout the year. Bulk-stored nut inventories are relieved on the basis of continuous high-speed bulk weighing systems as the nuts are shelled or processed or on the basis of calculations derived from the weight of the shelled nuts that are produced. While we perform various procedures to periodically confirm the accuracy of our bulk-stored nut inventories, these inventories are estimates that must be periodically adjusted to account for positive or negative variations in quantities and yields, and such adjustments directly affect earnings. The precise amount of our bulk-stored nut inventories is not known until the entire quantity of the particular nut is depleted, which may not necessarily occur every year. Prior crop year inventories may still be on hand as the new crop year inventories are purchased. There can be no assurance that such inventory quantity adjustments will not have a material adverse effect on our results of operations in the future.

We are Subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002

We are subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act). The Bioterrorism Act includes a number of provisions to help guard against the threat of bioterrorism, including new authority for the Secretary of Health and Human Services (HHS) to take action to protect the nation s food supply against the threat of international contamination. The Food and

Drug Administration (FDA), as the food regulatory arm of HHS, is responsible for developing and implementing these food safety measures, which fall into four broad categories: (i) registration of food facilities, (ii) establishment and maintenance of records regarding the sources and recipients of foods, (iii) prior notice to FDA of imported food shipments and (iv) administrative detention of potentially affected foods. There can be no assurances that the effects of the Bioterrorism Act and the rules enacted thereunder by the FDA, including any potential disruption in our supply of imported nuts, which represented approximately 31% of our total nut purchases in fiscal 2009, will not have a material adverse effect on our business, financial position or results of operations in the future.

Our Largest Stockholders Possess a Majority of Aggregate Voting Power, Which May Make a Takeover or Change in Control More Difficult

As of August 27, 2009, Jasper B. Sanfilippo, Marian Sanfilippo, Jeffrey T. Sanfilippo, Jasper B. Sanfilippo, Jr., Lisa A. Evon, John E. Sanfilippo and James J. Sanfilippo (the Sanfilippo Group) own or control Common Stock (one vote per share) and Class A Common Stock (ten votes per share) representing approximately a 52.3% voting interest in our Company. As of August 27, 2009, Michael J. Valentine and Mathias A. Valentine (the Valentine Group) own or control Common Stock (one vote per share) and Class A Common Stock (ten votes per share) representing approximately a 24.4% voting interest in our Company. As a result, the Sanfilippo Group and the Valentine Group together are able to direct the election of a majority of the members to the Board of Directors. In addition, the Sanfilippo Group is able to exert influence on our business that cannot be counteracted by another stockholder or group of stockholders. The Sanfilippo Group is able to determine the outcome of nearly all matters submitted to a vote of our stockholders, including any amendments to our certificate of incorporation or bylaws. The Sanfilippo Group has the power to prevent a change in control or sale of our Company, which may be beneficial to the public stockholders, or cause a change in control which may not be beneficial to the public stockholders, and can take other actions that might be less favorable to our stockholders and more favorable to the Sanfilippo Group, subject to applicable legal limitations.

We May Incur Material Losses as a Licensed Nut Warehouse Operator under the United States Warehouse Act

We store a large amount of peanut inventory on behalf of the United States government at various facilities. As a licensed United States Department of Agriculture Nut Warehouse Operator, we are responsible for delivering the loan value of the peanut inventory in our possession as represented on the warehouse receipt on demand. Because the inventory may be stored at our facilities for a significant period of time, the peanut inventory may decrease in value as a result of a decline in the quality of the peanut inventory or shrinkage in the peanut inventory. We are responsible for reimbursing the United States government for any such decline in value associated with quality issues or shrinkage in excess of an allowable amount that arise during our custody of such inventory. Accordingly, a significant decline in the value of the peanut inventory stored at our facilities for these circumstances could have a material adverse effect on us.

Essentially all of Our Real Property is Encumbered, Which Could Adversely Affect Our Ability to Obtain Additional Capital if Required

We returned to profitability in fiscal 2009 and reduced our debt levels significantly. However, the new financing arrangements entered into in fiscal 2008 include a mortgage facility, which is secured by essentially all of our owned real property located in Elgin, Illinois, Gustine, California and Garysburg, North Carolina. Previously, the aforementioned properties were not encumbered. Because essentially all of our owned real property is now encumbered, such properties are not available as a means of securing further capital in the event that additional capital is required because of unexpected events, losses or other circumstances.

General Economic Conditions Could Significantly Affect Our Financial Results

General economic conditions and the effects of a recession could have a material adverse effect on our cash flow from operations, results of operations and financial condition. These conditions include higher unemployment and potentially inflation, increased commodity costs, decreases in consumer demand, changes in buying patterns, a weakened dollar and general transportation and fuel costs. Maintaining the prices of our Company's products, initiating price increases, including passing along price increases for

commodities used in our Company's products, and increasing the demand for our Company's profitable products, all of which are important to our Company's plans to increase its profitability, are particularly challenging in the current economic environment. Among other considerations, nuts and our other products are not essential products.

Additionally, current economic credit conditions have adversely impacted global credit markets and have restricted liquidity in financial markets. These conditions could adversely affect the availability and cost of capital. It is possible that economic conditions, including restricted liquidity in financial markets, could adversely impact our Bank Lenders (as defined below) ability to honor their commitments to us pursuant to the Credit Facility (as defined below). Recent market developments impacting liquidity in the capital markets may also affect our customers and suppliers, which may impact their ability to continue to do business with us in the same manner they have in the past. For example, if nut growers are not able to access the credit markets in order to finance their input costs for the 2009 crop year, then this may adversely impact the availability and price of nuts (our principal raw product). In addition, our customers may default in the timely payment for our products. Any of the foregoing could have a material adverse effect on us and our financial condition and results of operations.

Item 1B Unresolved Staff Comments

None.

Item 2 Properties

We own or lease five principal production facilities. Our primary processing and distribution facility along with our headquarters is located at the New Site in Elgin, Illinois. The remaining principal production facilities are located in Bainbridge, Georgia; Garysburg, North Carolina; Selma, Texas; and Gustine, California. In addition, we operate an outlet store out of the New Site, and own one retail store and lease three additional retail stores in the Chicago area. We also lease space in public warehouse facilities in various states.

As described below in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources, the Mortgage Facility (as defined below) is secured by mortgages on essentially all of our owned real property located in Elgin, Illinois, Gustine, California and Garysburg, North Carolina. We operate in a single reportable operating segment that consists of selling various nut products through multiple distribution channels.

We believe that our facilities are generally well maintained and in good operating condition.

a. Principal Facilities

The following table provides certain information regarding our principal facilities:⁽¹⁾

Location	Square Footage	Types of Interest	Description of Principal Use	Date Company Constructed, Acquired or First Occupied
Bainbridge, Georgia ⁽²⁾	245,000	Owned	Peanut shelling, purchasing, processing, packaging, warehousing and distribution	1987
Garysburg, North Carolina	160,000	Owned	Peanut shelling, purchasing, processing, packaging, warehousing and distribution	1994
Selma, Texas ⁽³⁾	300,000	Leased	Pecan shelling, processing, packaging, warehousing and distribution	1992
Gustine, California	215,000	Owned	Walnut shelling, processing, packaging, warehousing and distribution	1993
Elgin, Illinois ⁽⁴⁾ (Elgin Office Building)	400,000	Owned	Rental Property	2005
Elgin, Illinois ⁽⁵⁾ (Elgin Warehouse Building)	1,001,000	Owned	Processing, packaging, warehousing, distribution and corporate offices	2005

(1) In addition to the properties listed in the table, we own land in Elgin, Illinois, which we originally anticipated using in connection with the facility consolidation project (the Original Site). For a description of

the Original
Site, see Part II,
Item 7

Management's
Discussion and
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Operations
Introduction .

- (2) The Bainbridge facility is subject to a mortgage and deed of trust securing \$4.720 million (excluding accrued and unpaid interest) in industrial development bonds. See Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

- (3) The sale of the Selma, Texas properties to the related party partnerships was consummated during the first quarter of fiscal 2007. See Note 1 to the Consolidated Financial Statements - Facility

Consolidation
Project/Real
Estate
Transactions .

- (4) The Elgin Office Building (part of the New Site) was acquired in April 2005, and 41.5% of the Elgin Office Building was leased back to the seller through April 2008. The lease was not renewed. Approximately 20% of the Elgin Office Building is currently being leased to other third parties. The remaining portion of the office building may be leased to third parties; however, there can be no assurance that we will be able to lease the unoccupied space. Further capital expenditures will be necessary to lease the remaining space, including the space previously rented by the seller of the New Site.

- (5) The Elgin Warehouse Building (part of the New Site) was acquired in April 2005 and was expanded from 653,000 to 1,001,000 square feet and was modified to our specifications. Our Chicago area distribution operation was transferred to the Elgin Warehouse Building in July 2006 and our corporate headquarters were relocated to the Elgin Warehouse Building in February 2007. The majority of our Chicago area processing activities were transferred to the Elgin Warehouse Building during fiscal 2007, with the remaining activities transferred in fiscal 2008 and the first quarter of fiscal 2009.

b. Manufacturing Capability, Utilization, Technology and Engineering

Our principal production facilities are equipped with modern processing and packaging machinery and equipment. The New Site was designed to our specifications with what we believe to be state-of-the-art equipment. The layout is designed to efficiently move products from raw storage to processing to packaging to distribution. The majority of processing operations at our previous Chicago area facilities were transferred to the New Site during fiscal 2007, with the remaining operations transferred in fiscal 2008 and the first quarter of fiscal 2009. Also, the New Site is designed to accommodate an increase in production capacity of 25% to 40% in part because the New Site provides substantially more square footage than the aggregate space previously available in our Chicago area facilities.

The Selma facility contains our automated pecan shelling and bulk packaging operation. The facility's pecan shelling production lines currently have the capacity to shell in excess of 90 million inshell pounds of pecans annually. For fiscal 2009, we processed approximately 48 million inshell pounds of pecans at the Selma, Texas facility.

The Bainbridge facility is located in the largest peanut producing region in the United States. This facility takes direct delivery of farmer stock peanuts and cleans, shells, sizes, inspects, blanches, roasts and packages them for sale to our customers. The production line at the Bainbridge facility is almost entirely automated and has the capacity to shell approximately 120 million inshell pounds of peanuts annually. During fiscal 2009, the Bainbridge facility shelled approximately 47 million inshell pounds of peanuts.

The Garysburg facility has the capacity to process approximately 70 million inshell pounds of farmer stock peanuts annually. For fiscal 2009, the Garysburg facility processed approximately 21 million pounds of inshell peanuts.

The Gustine facility is used for walnut shelling, warehousing and distribution. This facility has the capacity to shell in excess of 50 million inshell pounds of walnuts annually. For fiscal 2009, the Gustine facility shelled approximately 44 million inshell pounds of walnuts.

Item 3 Legal Proceedings

We are party to various lawsuits, proceedings and other matters arising out of the conduct of our business. Currently, it is management's opinion that the ultimate resolution of these matters will not have a material adverse effect upon our business, financial condition or results of operations.

Item 4 Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of fiscal 2009 to a vote of security holders, through solicitation of proxies or otherwise.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K, the following executive officer description information is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for our annual meeting of stockholders to be held on October 28, 2009:

Jeffrey T. Sanfilippo, Chief Executive Officer, age 46 Mr. Sanfilippo has been employed by us since 1991 and in November 2006 was named our Chief Executive Officer. Mr. Sanfilippo served as our Executive Vice President Sales and Marketing from January 2001 to November 2006. Mr. Sanfilippo served as our Senior Vice President Sales and Marketing from August 1999 to January 2001. Mr. Sanfilippo has been a member of our Board of Directors since August 1999. He served as General Manager West Coast Operations from September 1991 to September 1993. He served as Vice President West Coast Operations and Sales from October 1993 to September 1995. He served as Vice President Sales and Marketing from October 1995 to August 1999.

Michael J. Valentine, Chief Financial Officer and Group President, age 50 Mr. Valentine has been employed by us since 1987. In November 2006, Mr. Valentine was named our Chief Financial Officer and Group President and, in May 2007, Mr. Valentine was named our Secretary. Mr. Valentine served as our Executive Vice President Finance, Chief Financial Officer and Secretary from January 2001 to November 2006. Mr. Valentine served as our Senior Vice President and Secretary from August 1999 to January 2001. Mr. Valentine has been a member of our Board of Directors since April 1997. Mr. Valentine served as our Vice President and Secretary from December 1995 to August 1999. He served as an Assistant Secretary and the General Manager of External Operations for us from June 1987 and 1990, respectively, to December 1995. Mr. Valentine's responsibilities also include peanut, imported nut and other ingredient procurement and contract packaging business.

Jasper B. Sanfilippo, Jr., Chief Operating Officer and President, age 41 Mr. Sanfilippo has been employed by us since 1992. In November 2006, Mr. Sanfilippo was named our Chief Operating Officer and President and, in May 2007, Mr. Sanfilippo was named our Treasurer and held that position until January 2009. Mr. Sanfilippo served as our Executive Vice President Operations, retaining his position as Assistant Secretary, which he assumed in December 1995 from 2001 to November 2006. Mr. Sanfilippo became a member of our Board of Directors in December 2003. He became our Senior Vice President Operations in August 1999 and served as Vice President Operations from December 1995 to August 1999. Prior to that, Mr. Sanfilippo was the General Manager of our Gustine, California facility beginning in October 1995, and from June 1992 to October 1995 he served as Assistant Treasurer and worked in our Financial Relations Department. Mr. Sanfilippo is responsible for overseeing our non-peanut shelling operations, including plant operations and procurement.

James A. Valentine, Chief Information Officer, age 45 Mr. Valentine has been employed by us since 1986 and in November 2006 was named our Chief Information Officer. Mr. Valentine served as our Executive Vice President Information Technology from August 2001 to November 2006. Mr. Valentine served as Senior Vice President Information Technology from January 2000 to August 2001 and as Vice President of Management Information Systems from January 1995 to January 2000.

William R. Pokrajac, Vice President, Risk Management and Investor Relations, age 55 Mr. Pokrajac has been with us since 1985. He served as our Controller from 1987 to August 2003 and as our Vice President of Finance from 2001 until September 2007, when he was named Vice President, Risk Management and Investor Relations. Mr. Pokrajac is responsible for our risk management and investor relation activities. Mr. Pokrajac was named our Treasurer in January 2009.

Walter (Bobby) Tankersley Jr., Senior Vice President Industrial Sales, age 57 Mr. Tankersley has been employed by us since January 2002 and is responsible for directing the sales of the industrial distribution channel which includes pecans, almonds, walnuts, macadamias, peanuts, cashews and hazelnuts. He has over 30 years of experience in the nut industry where he was previously Vice President of Sales & Marketing at the Young Pecan Company and Director of Industrial Sales at the Mauna Loa Macadamia Nut Company. In addition to sales, he is responsible for procurement of almonds, walnuts, macadamias and pistachios as well as providing commodity analysis, crop forecasts, and consumption trend analysis for various nut commodities.

Everardo Soria, Senior Vice President Pecan Operations and Procurement, age 52 Mr. Soria has been with us since 1985. Mr. Soria was named Director of Pecan Operations in July 1995 and was named Vice President Pecan Operations and Procurement in January 2002. Mr. Soria was named Senior Vice President Pecan Operations and Procurement in August 2003. Mr. Soria is responsible for overseeing the procurement of pecans and for the shelling of pecans at our Selma, Texas facility.

Herbert J. Marros, Director of Financial Reporting and Taxation, age 51 Mr. Marros has been with us since 1995. Mr. Marros served as Assistant Controller from 1995 until 2003, when he was promoted to Controller. In September 2007, Mr. Marros was named Director of Financial Reporting and Taxation. Mr. Marros is responsible for our internal and external financial reporting and tax activities.

Michael G. Cannon, Senior Vice President of Corporate Operations, age 56 Mr. Cannon joined us in October 2005 as Senior Vice President of Operations. Previously, Mr. Cannon was Vice President of Operations at Sugar Foods Corp., a manufacturer and distributor of food products, from 1995 to October 2005. Mr. Cannon is responsible for the production operations for all of our facilities.

Frank S. Pellegrino, Vice President Finance and Corporate Controller, age 35 Mr. Pellegrino joined us in January 2007 as Director of Accounting and was appointed Corporate Controller in September 2007. In January 2009, he was named Vice President Finance and Corporate Controller. Previously, Mr. Pellegrino was Internal Audit Manager at W.W. Grainger, a business-to-business distributor, from June 2003 to January 2007. Prior to that, he was a Manager in the Assurance Practice of PricewaterhouseCoopers LLP, where he was employed from 1996 to 2003. Mr. Pellegrino is responsible for our accounting functions.

Thomas J. Fordonski, Vice President of Human Resources, age 56 Mr. Fordonski joined us in August, 2007 as Vice President of Human Resources. Previously, Mr. Fordonski was Director of Human Resources for Continental AG, a German-based global manufacturer of electronic automotive equipment. Prior to that, Mr. Fordonski spent 25 years at Motorola, Incorporated, with his career culminating as the Director of Human Resources for the global supply chain in the messaging and cellular communications business. Mr. Fordonski is responsible for leading the human resources activities and functions.

Robert J. Sarlls, Vice President of Strategy and Business Development, age 46 Mr. Sarlls joined us in May 2009 as Vice President of Strategy and Business Development. Previously, Mr. Sarlls was a Director at RBC Capital Markets, the investment banking arm of the Royal Bank of Canada. Prior to that, he was a Member of Strategic Food Capital Partners, a firm which provided food industry focused advisory services to the private equity community. Prior to that, Mr. Sarlls spent eight years and was a Vice President with Rabobank International, a global leader in providing financing and advisory services to the food and agribusiness industry, where he focused on domestic and international mergers & acquisitions. Mr. Sarlls is responsible for leading the development, refinement and execution of the Company's business strategies and spearheading new business opportunities.

RELATIONSHIPS AMONG CERTAIN DIRECTORS AND EXECUTIVE OFFICERS

Jasper B. Sanfilippo, a director and former Chairman of the Board of our company, is (i) the father of Jasper B. Sanfilippo, Jr. and Jeffrey T. Sanfilippo, executive officers and directors of our company, (ii) the brother-in-law of Mathias A. Valentine, a director of our company, and (iii) the uncle of Michael J. Valentine, an executive officer and a director of our company and James A. Valentine, an executive officer of our company. Michael J. Valentine, Chief Financial Officer, Group President and Secretary and a director of our company, is (i) the son of Mathias A. Valentine, (ii) the brother of James A. Valentine, (iii) the nephew of Jasper B. Sanfilippo, and (iv) the cousin of Jasper B. Sanfilippo, Jr. and Jeffrey T. Sanfilippo. Jeffrey T. Sanfilippo, Chief Executive Officer and a director of our company, is (i) the son of Jasper B. Sanfilippo, (ii) the brother of Jasper B. Sanfilippo, Jr., (iii) the nephew of Mathias A. Valentine, and (iv) the cousin of Michael J. Valentine and James A. Valentine. Jasper B. Sanfilippo, Jr., Chief Operating Officer, President and a director of our company, is (i) the son of Jasper B. Sanfilippo, (ii) the brother of Jeffrey T. Sanfilippo, (iii) the nephew of Mathias A. Valentine, and (iv) the cousin of Michael J. Valentine and James A. Valentine. James A. Valentine, Chief Information Officer, is (i) the son of Mathias A. Valentine, (ii) the brother of Michael J. Valentine, (iii) the nephew of Jasper B. Sanfilippo, and (iv) the cousin of Jasper B. Sanfilippo, Jr. and Jeffrey T. Sanfilippo.

PART II**Item 5 Market for Registrant's Common Equity and Related Stockholder Matters**

We have two classes of stock: Class A Stock and Common Stock. The holders of Common Stock are entitled to elect 25% of the members of the Board of Directors, rounded up to the nearest whole number, and the holders of Class A Stock are entitled to elect the remaining directors. With respect to matters other than the election of directors or any matters for which class voting is required by law, the holders of Common Stock are entitled to one vote per share while the holders of Class A Stock are entitled to ten votes per share. Our Class A Stock is not registered under the Securities Act of 1933 and there is no established public trading market for the Class A Stock. However, each share of Class A Stock is convertible at the option of the holder at any time and from time to time (and, upon the occurrence of certain events specified in our Restated Certificate of Incorporation, automatically converts) into one share of Common Stock.

Our Common Stock is quoted on the NASDAQ Global Market and our trading symbol is JBSS. The following tables set forth, for the quarters indicated, the high and low reported sales prices for the Common Stock as reported on the NASDAQ Global Market.

Year Ended June 25, 2009	Price Range of Common Stock	
	High	Low
4 th Quarter	\$ 7.82	\$4.01
3 rd Quarter	\$ 6.98	\$4.10
2 nd Quarter	\$ 8.87	\$4.30
1 st Quarter	\$10.75	\$7.51

Year Ended June 26, 2008	Price Range of Common Stock	
	High	Low
4 th Quarter	\$11.40	\$8.02
3 rd Quarter	\$ 9.80	\$6.72
2 nd Quarter	\$10.42	\$7.25
1 st Quarter	\$12.30	\$6.73

As of August 25, 2009, there were 71 holders and 15 holders of record of our Common Stock and Class A Stock, respectively.

Under our Company's Restated Certificate of Incorporation, the Class A Stock and the Common Stock are entitled to share equally on a share for share basis in any dividends declared by the Board of Directors on our common equity. However, our current financing agreements prohibit the payment of dividends. No dividends have been declared since 1995.

For purposes of the calculation of the aggregate market value of our voting stock held by non-affiliates as set forth on the cover page of this Report, we did not consider any of the siblings of Jasper B. Sanfilippo or Mathias A. Valentine, or any of the lineal descendants of either Jasper B. Sanfilippo, Mathias A. Valentine or such siblings (other than those who are executive officers of our Company or who have formed a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, with either Jasper B. Sanfilippo or Mathias A. Valentine) as an affiliate. See Review of Related Party Transactions and Security Ownership of Certain Beneficial Owners and Management contained in our Proxy Statement for the 2009 Annual Meeting and Executive Officers of the Registrant Relationships Among Certain Directors and Executive Officers appearing immediately before Part II of this Report.

Securities Authorized under Equity Compensation Plans

The following table sets forth information as of June 25, 2009, with respect to equity securities authorized for issuance pursuant to equity compensation plans previously approved by stockholders of our company and equity compensation plans not previously approved by our Company's stockholders.

Plan Category	(a) Number of securities to be issued upon exercise of options, warrants and rights	(b) Weighted average price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
Equity compensation plans approved by stockholders stock options	381,940	\$ 11.97	952,000 ⁽¹⁾
Equity compensation plans approved by stockholders restricted stock units	46,500		453,500 ⁽¹⁾

Equity compensation plans not approved by stockholders

(1) Under our 2008 Equity Incentive Plan, as amended, a total of 952,000 equity based stock awards are available for distribution, 453,500 of which may be used for grants of Common Stock, restricted stock and restricted stock units.

Item 6 Selected Financial Data

The following historical consolidated financial data as of and for the years ended June 25, 2009, June 26, 2008, June 28, 2007, June 29, 2006 and June 30, 2005 were derived from our consolidated financial statements. The financial data should be read in conjunction with our audited consolidated financial statements and notes thereto,

which are included elsewhere herein, and with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. The information below is not necessarily indicative of the results of future operations. No dividends have been declared since 1995.

Statement of Operations Data: (dollars in thousands, except per share data)

	Year Ended				
	June 25, 2009	June 26, 2008	June 28, 2007	June 29, 2006	June 30, 2005
Net sales	\$ 553,846	\$ 541,771	\$ 540,858	\$ 579,564	\$ 581,729
Cost of sales	481,447	475,538	499,569	542,447	503,300
Gross profit	72,399	66,233	41,289	37,117	78,429
Selling and administrative expenses	57,150	53,797	55,457	55,099	51,842
Restructuring expenses	(332)	1,765			
Gain related to real estate sales			(3,047)	(940)	
Goodwill impairment loss				1,242	
Income (loss) from operations	15,581	10,671	(11,121)	(18,284)	26,587
Interest expense	(7,646)	(10,502)	(9,347)	(6,516)	(3,998)
Debt extinguishment costs		(6,737)			
Rental and miscellaneous (expense) income, net	(1,277)	(286)	(629)	(610)	1,179
Income (loss) before income taxes	6,658	(6,854)	(21,097)	(25,410)	23,768
Income tax (benefit) expense	(259)	(897)	(7,520)	(8,689)	9,269
Net income (loss)	\$ 6,917	\$ (5,957)	\$ (13,577)	\$ (16,721)	\$ 14,499
Basic earnings (loss) per common share	\$ 0.65	\$ (0.56)	\$ (1.28)	\$ (1.58)	\$ 1.37
Diluted earnings (loss) per common share	\$ 0.65	\$ (0.56)	\$ (1.28)	\$ (1.58)	\$ 1.35

Balance Sheet Data: (dollars in thousands)

	June 25, 2009	June 26, 2008	June 28, 2007	June 29, 2006	June 30, 2005
Working capital	\$ 52,701	\$ 42,863	\$ 15,461	\$ 22,617	\$ 137,764
Total assets	322,699	350,784	367,271	390,912	394,472
Long-term debt, less current maturities	49,016	52,356	19,783	5,618	67,002
Total debt	93,938	132,555	148,034	137,676	144,174
Stockholders' equity	165,499	158,372	162,991	180,110	196,175

Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements. Our fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters). References herein to fiscal 2010 are to the fiscal year ending June 24, 2010. References herein to fiscal 2009 are to the fiscal year ended June 25, 2009. References herein to fiscal 2008 are to the fiscal year ended June 26, 2008. References herein to fiscal 2007 are to the fiscal year ended June 28, 2007. As used herein, unless the context otherwise indicates, the terms "Company", "we", "us", "our" or "Company" collectively refer to John B. Sanfilippo & Son, Inc. and JBSS Properties, LLC, a wholly-owned subsidiary of John B. Sanfilippo & Son, Inc. Our Company's Credit Facility and Mortgage Facility, as defined below, are sometimes collectively referred to as "our new financing arrangements."

We are one of the leading processors and marketers of peanuts, pecans, cashews, walnuts, almonds and other nuts in the United States. These nuts are sold under a variety of private labels and under the *Fisher*, *Flavor Tree*, *Sunshine Country* and *Texas Pride* brand names. We also market and distribute, and in most cases manufacture or process, a diverse product line of food and snack products, including peanut butter, candy and confections, natural snacks and trail mixes, sunflower seeds, corn snacks, sesame sticks and other sesame snack products. We distribute our products in the consumer, industrial, food service, contract packaging and export distribution channels.

We face a number of challenges in the future. In addition to operating in a difficult economic environment, specific challenges, among others, include increasing our profitability, intensified competition, fluctuating commodity costs and our ability to achieve the anticipated benefits of the facility consolidation project. We will focus on seeking additional profitable business to utilize the additional production capacity at the New Site (as defined below). We expect to be able to devote more funds to promote and advertise our Fisher brand in order to attempt to regain market share that has been lost in recent years. However, this effort may be challenging because, among other things, consumer preferences have shifted towards lower-priced private label products from higher-priced branded products as a result of current economic conditions. In addition, private label products generally provide lower margins than branded products. Also, we will continue to face the ongoing challenges specific to our business such as food safety and regulatory issues and the maintenance and growth of our customer base, and we will face the challenges presented by the current state of the domestic and global economy. See the information referenced in Part I, Item 1A "Risk Factors".

Annual Highlights

We returned to profitability in fiscal 2009 after three consecutive years of net losses. Our net income for fiscal 2009 was \$6.9 million compared to a net loss of \$6.0 million for fiscal 2008. Our fiscal 2009 results include an income tax benefit of \$0.3 million. The favorable operating results for fiscal 2009 and our currently expected future profitability led to the elimination of a \$3.0 million income tax valuation allowance that existed at the beginning of fiscal 2009.

Accordingly, assuming we continue to achieve profitability in future years, we would no longer have the benefit of net operating loss carryforwards and lower effective tax rates. See "Income Taxes" below.

Our net sales were \$553.8 million for fiscal 2009, a \$12.1 million, or 2.2%, increase over fiscal 2008. This increase is primarily due to a 4.4% increase in our average sales price per pound shipped, as overall pounds shipped decreased by 1.8% for fiscal 2009 compared to fiscal 2008. While pounds shipped decreased marginally in fiscal 2009 compared to fiscal 2008, pounds shipped increased over 9% for both the third and

fourth quarters of fiscal 2009 compared to fiscal 2008. Sales in our consumer distribution channel increased by 7.8% in dollars and 5.5% in volume for fiscal 2009 compared to fiscal 2008 through the addition of a major private label customer and increased business at our existing customer base. The increase in sales volume has allowed us to utilize the extra production capacity generated by our new production facility located in Elgin, Illinois. However, further increases in sales volume will be required in the future for us to realize the full extent of the planned benefits of our new production facility located in Elgin, Illinois. Also, we recently lost the private label business of a significant customer, representing approximately 4% of our net sales for fiscal 2009.

Our fiscal 2009 results were negatively impacted by a pistachio recall. During the time period of March 31, 2009 through April 8, 2009, we voluntarily recalled roasted inshell pistachios, raw shelled pistachios and mixed nuts containing raw shelled pistachios. The recall was made as a precautionary measure because such products may have been contaminated with salmonella. Our recall was a follow-up to the industry-wide voluntary recall of pistachios announced by Setton Pistachio of Terra Bella, Inc. (Setton), one of our pistachio suppliers. We do not currently anticipate any further recalls related to purchases of pistachios from Setton. Our total costs associated with the recall are estimated to be approximately \$2.5 million. This total may be broken down as follows: (i) \$1.7 million reduction in sales for shipments to customers; (ii) \$0.3 million increase in cost of sales for the destruction of inventory in our possession; and (iii) \$0.5 million increase in administrative expenses for our customers' lost profits and other miscellaneous expenses. As of June 25, 2009, our remaining accrued liability for product recall is \$435 thousand. We currently intend to aggressively pursue the recovery of our recall costs from Setton, Setton's insurance and our own insurance; however, we can provide no assurance as to the likelihood, extent or timing of any such recovery. Our total debt levels decreased by \$38.6 million during fiscal 2009 due primarily to positive operating cash flow of \$43.4 million and limited capital expenditures of \$5.9 million. Our improved financial position will allow us to devote more resources to profitably grow and expand our business, especially our Fisher brand. We have developed a five-year strategic plan through which we intend to maximize the potential of our business.

Results of Operations

The following table sets forth the percentage relationship of certain items to net sales for the periods indicated and the percentage increase or decrease of such items from fiscal 2008 to fiscal 2009 and from fiscal 2007 to fiscal 2008.

	Percentage of Net Sales			Percentage Increase/Decrease	
	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2009 vs. 2008	Fiscal 2008 vs. 2007
Net sales	100.0%	100.0%	100.0%	2.2%	0.2%
Gross profit	13.1	12.2	7.6	9.3	60.4
Selling expenses	6.6	6.4	7.2	4.5	(10.5)
Administrative expenses	3.7	3.5	3.0	9.5	14.9
Restructuring expenses	(0.1)	0.3		(118.8)	
Gain related to real estate sales			(0.6)		

Fiscal 2009 Compared to Fiscal 2008

Net Sales.

Net sales increased to \$553.8 million for fiscal 2009 from \$541.8 million for fiscal 2008, an increase of \$12.1 million, or 2.2%. Sales volume, measured as pounds shipped, decreased by 1.8% for the same time period. Net sales, measured in dollars and sales volume, increased in our consumer and contract packaging distribution channels and decreased in our industrial, food service and export distribution channels.

The following table shows a comparison of sales by distribution channel, and as a percentage of total net sales (dollars in thousands):

Distribution Channel	Fiscal 2009		Fiscal 2008	
Consumer	\$ 317,097	57.3%	\$ 294,021	54.2%
Industrial	79,147	14.3	92,792	17.1
Food Service	64,657	11.7	68,132	12.6
Contract Packaging	55,753	10.0	47,441	8.8
Export	37,192	6.7	39,385	7.3
Total	\$ 553,846	100.0%	\$ 541,771	100.0%

The following table shows an annual comparison of sales by product type as a percentage of total gross sales. The table is based on gross sales, rather than net sales, because certain adjustments, such as promotional discounts, are not allocable to product type.

Product Type	Fiscal 2009	Fiscal 2008
Peanuts	21.8%	20.1%
Pecans	19.2	22.6
Cashews & Mixed Nuts	22.5	20.8
Walnuts	13.3	14.7
Almonds	11.3	11.9
Other	11.9	9.9
Total	100.0%	100.0%

Net sales in the consumer distribution channel increased by 7.8% in dollars and 5.5% in volume in fiscal 2009 compared to fiscal 2008. Private label consumer sales volume increased by 7.3% in fiscal 2009 compared to fiscal 2008 primarily due to: (i) a significant new customer for the last half of fiscal 2009; (ii) expansion of business at an existing customer; and (iii) a general increase in sales of private label products due to current economic conditions. Fisher brand sales volume increased 3.2% for fiscal 2009 compared to fiscal 2008 primarily due to an increase in inshell peanut sales to a major customer partially offset by decreased sales to other customers.

Net sales in the industrial distribution channel decreased by 14.7% in dollars and 23.3% in sales volume in fiscal 2009 compared to fiscal 2008. The sales volume decrease is primarily due to: (i) lower raw peanut sales to other peanut processors and oil processors resulting, in part, from a planned reduction in peanuts shelled at our Bainbridge, Georgia facility; (ii) increased price competition from processors who are directly aligned with nut growers; (iii) a decrease in the availability of our supply of tree nuts for the industrial distribution channel; and (iv) a decrease in demand in the industrial distribution channel for nuts, as fewer new products with nuts as ingredients are being developed.

Net sales in the food service distribution channel decreased by 5.1% in dollars and 4.1% in volume in fiscal 2009 compared to fiscal 2008. This decrease is primarily due to the effects of current economic conditions as consumers are spending less money at restaurants.

Net sales in the contract packaging distribution channel increased by 17.5% in dollars and 6.7% in volume in fiscal 2009 compared to fiscal 2008. The significant sales volume increase is primarily due to increased business with our major contract packaging customer.

Net sales in the export distribution channel decreased by 5.6% in dollars and 3.0% in volume in fiscal 2009 compared to fiscal 2008. The decrease in volume is primarily due to lower sales to our industrial export customers.

Gross Profit.

Gross profit increased 9.3% to \$72.4 million for fiscal 2009 from \$66.2 million for fiscal 2008. Gross margin increased to 13.1% of net sales for fiscal 2009 from 12.2% for fiscal 2008. The pistachio recall had a 0.3% percentage

point effect on gross margin for fiscal 2009. The improvement was achieved largely due to: (i) a decrease in redundant costs, as all Chicago area operations are now consolidated at the New Site (as defined below); (ii) a decrease in external contractor charges related to moving equipment from the previous Chicago area facilities to the New Site; and (iii) improved efficiency variances. Gross profit

margins improved on sales of almonds and walnuts due to lower acquisition costs and decreased on peanuts and cashews. Temporary delays in supplier shipments of peanuts and cashews along with lower-priced purchase contracts resulted in limited opportunities for purchasing these commodities at low costs. In order to fulfill our obligations to our customers, we purchased these commodities in the high-priced spot market during the first half of fiscal 2009.

Operating Expenses.

Selling expenses for fiscal 2009 were \$36.5 million, an increase of \$1.6 million, or 4.5%, from fiscal 2008. The increase is due primarily to a \$2.8 million increase in advertising and promotion in our efforts to rejuvenate the Fisher brand and a \$0.9 million increase in incentive compensation expense. These increases in selling expense were partially offset by a \$1.2 million reduction in freight expense due to more customers picking up their orders at our facilities and lower fuel costs and savings resulting from our restructuring initiatives executed during fiscal 2008. Administrative expenses for fiscal 2009 were \$20.7 million, an increase of \$1.8 million, or 9.5%, from fiscal 2008. This increase is due primarily to a \$0.6 million increase in incentive compensation expense and \$0.5 million related to the pistachio recall. Operating expenses for fiscal 2008 included \$1.8 million of restructuring expenses, primarily related to the estimated cost of withdrawal from a multiemployer pension plan. Operating expenses were reduced by \$0.3 million during the first quarter of fiscal 2009 for the difference between our previously estimated cost of withdrawal from the multiemployer pension plan and the actual cost determined by the multiemployer pension plan.

Income from Operations.

Due to the factors discussed above, the income from operations was \$15.6 million, or 2.8% of net sales, for fiscal 2009, compared to \$10.7 million, or 2.0% of net sales, for fiscal 2008.

Interest Expense.

Interest expense decreased to \$7.6 million for fiscal 2009 from \$10.5 million for fiscal 2008. The decrease is primarily due to lower short-term interest rates on our Credit Facility compared to rates on our Prior Credit Facility (as defined below) which was in place during the majority of fiscal 2008 and also lower average debt levels.

Debt Extinguishment Costs.

Debt extinguishment costs of \$6.7 million were recorded for fiscal 2008. As a result of our refinancing completed during the third quarter of fiscal 2008, we were required to pay a \$1.0 million debt extinguishment charge to the lenders under the Prior Credit Facility, pay a \$5.2 million debt extinguishment charge to the noteholders under the Prior Note Agreement and write off the \$0.5 million in remaining unamortized balance of fees related to the Prior Credit Facility and Prior Note Agreement.

Rental and Miscellaneous (Expense) Income, Net.

Net rental and miscellaneous (expense) income was an expense of \$1.3 million for fiscal 2009 compared to an expense of \$0.3 million for fiscal 2008. The increase in net expense is due to lower rental income as a result of a higher vacancy rate at the office building located at the New Site.

Income Tax Benefit.

Income tax benefit was \$0.3 million, or (3.9)% of income before income taxes, for fiscal 2009 compared to \$0.9 million, or 13.1% of income before income taxes, for fiscal 2008. The income tax benefit in 2009 varied from the federal statutory income tax rate primarily as we reversed a \$3.0 million valuation allowance at the beginning of the year associated with deferred income tax assets, which included federal and state net operating loss (NOL) carryforwards. Our operating results for fiscal 2009 and our currently expected future profitability led to the elimination of our \$3.0 million valuation allowance as we currently believe it is more likely than not that the deferred income tax assets will be realized.

Net Income (Loss).

Net income was \$6.9 million, or \$0.65 basic and diluted per common share, for fiscal 2009, compared to a net loss of (\$6.0) million, or (\$0.56) basic and diluted per common share, for fiscal 2008, due to the factors discussed above.

Fiscal 2008 Compared to Fiscal 2007**Net Sales.**

Net sales increased slightly to \$541.8 million for fiscal 2008 from \$540.9 million for fiscal 2007, an increase of \$0.9 million, or 0.2%. Sales volume, measured as pounds shipped, decreased by 9.7% for the same time period. Net sales, measured in dollars and sales volume, increased in our food service distribution channel and decreased in our industrial and export distribution channels. Net sales in our consumer and contract packaging distribution channels increased in dollars but decreased in sales volume. The average net sales price per pound increased in all distribution channels.

Our costs to acquire raw peanuts increased over 30% in fiscal 2008. The cost increases were due to a combination of factors, including, (i) prices to peanut farmers were increased to provide incentives for growing peanuts, (ii) the failure of the federal government to extend the storage and handling subsidy for the last year under the 2002 Farm Bill, and (iii) drought conditions in the southeastern United States. Our peanut sales, including peanut butter, decreased by approximately 12% in terms of pounds shipped in fiscal 2008 compared to fiscal 2007, but increased slightly in terms of dollars. While our overall volume was negatively impacted by the increase in peanut prices, sufficient volume was maintained to improve our profitability.

The supply of cashews, which we procure primarily from India, Africa, Southeast Asia and Brazil, were negatively affected due to adverse weather conditions, increased domestic demand in India and other factors. Accordingly, the low supply, and the weak United States dollar, resulted in significantly higher market prices for cashews.

In January 2008, we terminated our store-door distribution system as a result of our determination that it was no longer profitable to ship products to customers through our store-door distribution system. In connection with the discontinuance of the store-door delivery system, we terminated nine employees. We maintained a majority of the \$2.5 million in annual sales generated through the store-door distribution system, as business has migrated to our other distribution methods.

The following table shows a comparison of sales by distribution channel, and as a percentage of total net sales (dollars in thousands):

Distribution Channel	Fiscal 2008		Fiscal 2007	
Consumer	\$ 294,021	54.2%	\$ 276,890	51.2%
Industrial	92,792	17.1	111,998	20.7
Food Service	68,132	12.6	61,763	11.4
Contract Packaging	47,441	8.8	45,003	8.3
Export	39,385	7.3	45,204	8.4
Total	\$ 541,771	100.0%	\$ 540,858	100.0%

The following table shows an annual comparison of sales by product type as a percentage of total gross sales. The table is based on gross sales, rather than net sales, because certain adjustments, such as promotional discounts, are not allocable to product type.

Product Type	Fiscal 2008	Fiscal 2007
Peanuts	20.1%	20.0%
Pecans	22.6	22.3
Cashews & Mixed Nuts	20.8	21.1
Walnuts	14.7	13.7
Almonds	11.9	13.3
Other	9.9	9.6
Total	100.0%	100.0%

Net sales in the consumer distribution channel increased by 6.2% in dollars but decreased 3.4% in volume in fiscal 2008 compared to fiscal 2007. The dollar increase was due primarily to price increases and changes in sales mix. Private label consumer sales volume decreased by 1.6% in fiscal 2008 compared to fiscal 2007 due primarily to the loss of a portion of the business of a major customer who would not accept price increases, offset almost entirely by new business. Fisher brand sales volume decreased by 13.7% in

fiscal 2008 compared to fiscal 2007. The decrease is due primarily to lower snack nut sales and a \$3.3 million reduction in walnut baking nut sales to a major customer.

Net sales in the industrial distribution channel decreased by 17.1% in dollars and 27.2% in sales volume in fiscal 2008 compared to fiscal 2007. The sales volume decrease was 21.0%, excluding raw peanut sales to other peanut processors. Other factors for the sales volume decrease included a decrease in almond sales due to our discontinuance of our almond handling operation and a decrease in walnut sales due to a decrease in the availability of our supply of walnuts for the industrial distribution channel.

Net sales in the food service distribution channel increased by 10.3% in dollars and 3.5% in volume in fiscal 2008 compared to fiscal 2007. Consistent sales volume increases were experienced at all major customers in the food service distribution channel.

Net sales in the contract packaging distribution channel increased by 5.4% in dollars, but decreased 7.5% in volume in fiscal 2008 compared to fiscal 2007. The increase in net sales dollars was due primarily to the introduction of new products for a major customer. The decrease in sales volume was due primarily to certain sales that occurred during the first twenty-six weeks of fiscal 2007 that were subsequently discontinued.

Net sales in the export distribution channel decreased by 12.9% in dollars and 13.3% in volume in fiscal 2008 compared to fiscal 2007. The decrease was due primarily to volume decreases in almond and pecan sales. Almond sales declined due to the discontinuance of our almond handling operation, which generated by-products, for which Europe is the principal market. Pecan sales in the export distribution channel declined primarily due to decreasing our sales efforts as higher profitability was available in our other distribution channels.

Gross Profit.

Gross profit for fiscal 2008 increased 60.4% to \$66.2 million from \$41.3 million for fiscal 2007. Gross margin increased to 12.2% of net sales for fiscal 2008 from 7.6% for fiscal 2007. The gross profit improvement was achieved primarily through price increases, the elimination of unprofitable sales and shifts in sales mix. The gross profit increase was achieved despite the following unusual or infrequent expenses.

\$7.1 million increase in unfavorable labor and efficiency variances over fiscal 2007, which was primarily related to the shut down and start up costs for production lines that were moved from the previous Chicago area facilities and installed in the New Site;

\$2.6 million in estimated redundant manufacturing expenses as production activities occurred at the previous Chicago area facilities while the manufacturing spending in the New Site reflected increased production levels; and

\$2.6 million in external contractor charges that were related to the acceleration of the equipment move from the existing Chicago area facilities to the New Site.

Operating Expenses.

Selling expenses for fiscal 2008 were \$34.9 million, a decrease of \$4.1 million, or 10.5%, from fiscal 2007. The decrease was due primarily to a \$1.7 million reduction in freight expense due to more customers picking up their orders at our facilities, a \$1.5 million reduction in distribution expenses related primarily to the relocation of our Chicago area distribution center to the New Site, a \$0.6 million reduction in broker commissions and a \$0.4 million reduction in advertising and promotion related expenses. Administrative expenses for fiscal 2008 were \$18.9 million, an increase of \$2.4 million, or 14.9%, from fiscal 2007. This increase was due primarily to a \$0.5 million increase in consulting fees related to our profitability enhancement initiative and the design and implementation of a new incentive compensation plan, a \$0.4 million increase in salaries and a \$1.7 million increase in incentive compensation related to such incentive compensation plan. Also included in operating expenses are restructuring costs of \$1.8 million for fiscal 2008. These restructuring costs consisted of \$1.2 million related to the discontinuance of our store-door distribution system, \$0.3 million related to one-time severance expenses, \$0.2 million related to the exit of a leased facility before termination date at a facility no longer utilized by us and \$0.1 million of operating

lease termination costs. Also included in operating expenses for fiscal 2007 is a gain of \$3.0 million related to real estate sales.

Income (Loss) from Operations.

Due to the factors discussed above, the income from operations was \$10.7 million, or 2.0% of net sales, for fiscal 2008, compared to a loss from operations of \$11.1 million, or (2.1)% of net sales, for fiscal 2007.

Interest Expense.

Interest expense increased to \$10.5 million for fiscal 2008 from \$9.3 million for fiscal 2007. This increase primarily resulted from the fact that we capitalized \$0.9 million of interest in fiscal 2007 related to our facility consolidation project and capitalized no interest in fiscal 2008. In addition, we paid higher interest rates on our Prior Credit Facility and Prior Note Agreement during fiscal 2008 than fiscal 2007.

Debt Extinguishment Cost.

Debt extinguishment costs of \$6.7 million were recorded for fiscal 2008. As a result of our refinancing completed during the third quarter of fiscal 2008, we were required to pay a \$1.0 million debt extinguishment charge to the lenders under the Prior Credit Facility, pay a \$5.2 million debt extinguishment charge to the noteholders under the Prior Note Agreement and write off the \$0.5 million in remaining unamortized balance of fees related to the Prior Credit Facility and Prior Note Agreement.

Rental and Miscellaneous (Expense) Income, Net.

Net rental and miscellaneous (expense) income was an expense of \$0.3 million for fiscal 2008 compared to an expense of \$0.6 million for fiscal 2007.

Income Tax Benefit.

Income tax benefit was \$0.9 million, or 13.1% of loss before income taxes, for fiscal 2008 compared to \$7.5 million, or 35.6%, for fiscal 2007. We had no ability to carry back losses to prior years, since losses were experienced for fiscal 2006 and fiscal 2007. The tax benefit for fiscal 2008 was limited to the extent that deferred tax liabilities exceeded deferred tax assets. As of June 26, 2008, we had a valuation allowance of approximately \$3.0 million.

Net Loss.

Net loss was \$6.0 million, or \$0.56 basic and diluted per common share, for fiscal 2008, compared to \$13.6 million, or \$1.28 basic and diluted per common share, for fiscal 2007, due to the factors discussed above.

Liquidity and Capital Resources

General.

The primary uses of cash are to fund our current operations, fulfill contractual obligations and repay indebtedness. Also, various uncertainties could result in additional uses of cash. The primary sources of cash are results of operations and availability under our Credit Facility. We have intensified our management of working capital as a result of the current economic situation. We anticipate that expected net cash flow generated from operations and amounts available pursuant to the Credit Facility will be sufficient to fund our operations for the next twelve months. However, in the current economic environment no assurance can be given. See Part I, Item 1A Risk Factors . Cash flows from operating activities have historically been driven by net income but are also significantly influenced by inventory requirements, which can change based upon fluctuations in both quantities and market prices of the various nuts we buy and sell. Current market trends in nut prices and crop estimates also impact nut procurement. Net cash provided by operating activities was \$43.4 million for fiscal 2009 compared to \$29.6 million for fiscal 2008. The increase is primarily due to improved operating results and more effective inventory management partially offset by a \$6.6 million federal tax refund received during fiscal 2008.

We repaid \$3.9 million of long-term debt during fiscal 2009, \$3.0 million of which was related to the Mortgage Facility. The net reduction in our Credit Facility was \$34.7 million.

Total inventories were \$106.3 million at June 25, 2009, a decrease of \$20.7 million, or 16.3%, from the balance at June 26, 2008. The decrease from June 26, 2008 to June 25, 2009 is primarily due to decreases in finished goods and work-in-process resulting from more effective inventory management and lower nut costs.

Net accounts receivable were \$34.8 million at June 25, 2009, an increase of \$0.3 million, or 1.0%, from the balance at June 26, 2008. Net sales in June 2009 were similar to the net sales in June 2008. Accounts receivable allowances were \$2.8 million at June 25, 2009, an increase of \$0.5 million from the amount at June 26, 2008. The primary reason for the increase is the expansion of our promotional activity.

Current economic and credit conditions have adversely impacted demand for consumer products and the credit markets. These conditions could, among other things, have a material adverse effect on the cash received from our operations and the availability and cost of capital. See Part I, Item 1A Risk Factors .

Real Estate Matters.

In August 2008, we completed the consolidation of our Chicago-based facilities into a single facility in Elgin, Illinois (the New Site). As part of the facility consolidation project, on April 15, 2005, we closed on the \$48.0 million purchase of the New Site. The New Site includes both an office building and a warehouse. We leased 41.5% of the office building back to the seller for a three year period ending April 2008. The seller did not exercise its option to renew its lease and vacated the office building. Accordingly, we are currently attempting to find replacement tenant(s) for the space that was rented by the seller of the New Site. Until replacement tenant(s) are found, we will not receive the benefit of rental income associated with such space. Approximately 80% of the office building is currently vacant. There can be no assurance that we will be able to lease the unoccupied space and further capital expenditures may be necessary to lease the remaining space, including the space previously rented by the seller of the New Site.

On March 28, 2006, JBSS Properties, LLC acquired title by quitclaim deed to the site that was originally purchased in Elgin, Illinois (the Original Site) for our facility consolidation project and JBSS Properties, LLC entered into an Assignment and Assumption Agreement (the Agreement) with the City of Elgin (the City). Under the terms of the Agreement, the City assigned to us the City's remaining rights and obligations under a development agreement entered into by and among our Company, certain related party partnerships and the City (the Development Agreement). We subsequently entered into a sales contract with a potential buyer of the Original Site. The sales contract was recently terminated as the potential buyer was unable to secure financing. While we are currently actively searching for new potential buyers of the Original Site, we cannot ensure that a sale will occur in the next twelve months. We therefore reclassified \$5.6 million from current assets to property, plant and equipment. The Mortgage Facility is secured, in part,

by the Original Site. We must obtain the consent of the Mortgage Lender prior to the sale of the Original Site. A portion of the Original Site contains an office building (which we began renting during the third quarter of fiscal 2007) that may or may not be included in any future sale. Our total costs under the Development Agreement were \$6.8 million as of June 25, 2009 and June 26, 2008, (i) \$5.6 million of which is currently recorded as a component of Property, Plant and Equipment as of June 25, 2009 and was previously recorded as an Asset Held for Sale as of June 26, 2008 and (ii) \$1.2 million of which is recorded as Rental Investment Property. We have reviewed the assets under the Development Agreement and concluded that no adjustment of the carrying value is required.

Financing Arrangements.

On February 7, 2008, we entered into a Credit Agreement with a new bank group (the Bank Lenders) providing a \$117.5 million revolving loan commitment and letter of credit subfacility (the Credit Facility). Also on February 7, 2008, we entered into a Loan Agreement with an insurance company (the Mortgage Lender) providing us with two term loans, one in the amount of \$36.0 million (Tranche A) and the other in the amount of \$9.0 million (Tranche B), for an aggregate amount of \$45.0 million (the Mortgage Facility). The Credit Facility and Mortgage Facility replaced our prior revolving credit facility (the Prior Credit Facility) and long-term financing facility (the Prior Note Agreement). Our new financing arrangements were secured, in part, to generally obtain more flexible covenants than those associated with the Prior Note Agreement and Prior Credit Facility, which we were not in full compliance with during the first three quarters of fiscal 2008. We currently expect to be in compliance with all financial covenants under the Credit Facility and Mortgage Facility for the foreseeable future and we currently have full access to our new financing; however, it is possible that current economic and credit conditions could adversely impact our Bank Lenders' ability to honor their commitments to us under the Credit Facility. See Part I, Item 1A Risk Factors. The Credit Facility is secured by substantially all of our assets other than real property and fixtures. The Mortgage Facility is secured by mortgages on essentially all of our owned real property located in Elgin, Illinois, Gustine, California and Garysburg, North Carolina (the Encumbered Properties). The encumbered Elgin, Illinois real property includes almost all of the Original Site that was purchased prior to the New Site purchase.

The Credit Facility matures on February 7, 2013. At our election, borrowings under the Credit Facility accrue interest at either: (i) a rate determined pursuant to the administrative agent's prime rate minus an applicable margin determined by reference to the amount of loans which may be advanced under a borrowing base calculation based upon accounts receivable, inventory and machinery and equipment (the Borrowing Base Calculation), ranging from 0.00% to 0.50% or (ii) a rate based on the London interbank offered rate (LIBOR) plus an applicable margin based upon the Borrowing Base Calculation, ranging from 2.00% to 2.50%. The face amount of undrawn letters of credit accrues interest at a rate of 1.50% to 2.00%, based upon the Borrowing Base Calculation. The portion of the Borrowing Base Calculation based upon machinery and equipment will decrease by \$1.5 million per year for the first five years to coincide with amortization of the machinery and equipment collateral. As of June 25, 2009, the weighted average interest rate for the Credit Facility was 2.46%. The terms of the Credit Facility contain covenants that require us to restrict investments, indebtedness, capital expenditures, acquisitions and certain sales of assets, cash dividends, redemptions of capital stock and prepayment of indebtedness (if such prepayment, among other things, is of a subordinate debt). If loan availability under the Borrowing Base Calculation falls below \$15.0 million, we will be required to maintain a specified fixed charge coverage ratio, tested on a monthly basis. All cash received from customers is required to be applied against the Credit Facility. The Credit Facility does not include, among other things, a working capital, EBITDA, net worth, excess availability, leverage or debt service coverage financial covenant. The Bank Lenders are entitled to require immediate repayment of our obligations under the Credit Facility in the event of default on the payments required under the Credit Facility, non-compliance with the financial covenants or upon the occurrence of certain other defaults by us under the Credit Facility (including a default under the Mortgage Facility). As of June 25, 2009, we were in compliance with all covenants under the Credit Facility and we currently expect to be in compliance with the financial covenant in the Credit Facility for the foreseeable future, but see Part I, Item 1A Risk Factors. As of June 25, 2009, we had \$58.8 million of available credit under the Credit Facility. We would still be in compliance with all restrictive covenants under the Credit Facility if this entire amount were borrowed.

The Mortgage Facility matures on March 1, 2023. Tranche A under the Mortgage Facility accrues interest at a fixed interest rate of 7.63% per annum, payable monthly. Such interest rate may be reset by the Mortgage Lender on March 1, 2018 (the Tranche A Reset Date). Monthly principal payments in the amount of \$0.2 million commenced on June 1, 2008. Tranche B under the Mortgage Facility accrues interest at a floating rate of one month LIBOR plus 5.50% per annum, payable monthly. The margin on such floating rate may be reset by the Mortgage Lender on March 1, 2010 and every two years thereafter (each, a Tranche B Reset Date); provided, however, that the Mortgage Lender may also change the underlying index on each Tranche B Reset Date occurring on or after March 1, 2016. Monthly principal payments in the amount of \$0.1 million commenced on June 1, 2008.

On the Tranche A Reset Date and each Tranche B Reset Date, the Mortgage Lender may reset the interest rates for each of Tranche A and Tranche B, respectively, in its sole and absolute discretion. With respect to Tranche A, if we do not accept the reset rate, Tranche A will become due and payable on the Tranche A Reset Date, without prepayment penalty. With respect to Tranche B, if we do not accept the reset rate, Tranche B will be due and payable on the Tranche B Reset Date, without prepayment penalty. There can be no assurance that the reset interest rates for each of Tranche A and Tranche B will be acceptable to us. If the reset interest rate for either Tranche A or Tranche B is unacceptable to us and we (i) do not have sufficient funds to repay amounts due with respect to Tranche A or Tranche B, as applicable, on the Tranche A Reset Date or Tranche B Reset Date, as applicable or (ii) are unable to refinance amounts due with respect to Tranche A or Tranche B, as applicable, on the Tranche A Reset Date or Tranche B Reset Date, as applicable, on terms more favorable than the reset interest rates, then such reset interest rates could have an adverse effect on our financial condition, results of operations and financial results.

The terms of the Mortgage Facility contain covenants that require us to maintain a specified net worth of \$110.0 million and maintain the Encumbered Properties. The Mortgage Facility is secured, in part, by the Original Site. We must obtain the consent of the Mortgage Lender prior to the sale of the Original Site. A portion of the Original Site contains an office building (which we began renting during the third quarter of fiscal 2007) that may or may not be included in any future sale (assuming one were to occur). The Mortgage Facility does not include, among other things, a working capital, EBITDA, excess availability, fixed charge coverage, capital expenditure, leverage or debt service coverage financial covenant. The Mortgage Lender is entitled to require immediate repayment of our obligations under the Mortgage Facility in the event we default in the payments required under the Mortgage Facility, non-compliance with the covenants or upon the occurrence of certain other defaults by us under the Mortgage Facility. As of June 25, 2009, we were in compliance with all covenants under the Mortgage Facility. We currently believe that we will be in compliance with the financial covenant in the Mortgage Facility for the foreseeable future and therefore \$31.0 million has been classified as long-term debt as of June 25, 2009, but see Part I, Item 1A Risk Factors. This \$31.0 million represents scheduled principal payments due under Tranche A beyond twelve months of June 25, 2009. As of June 25, 2009, we had \$4.7 million in aggregate principal amount of industrial development bonds (the bonds) outstanding, which was originally used to finance the acquisition, construction and equipping of our Bainbridge, Georgia facility. The bonds bear interest payable semiannually at 4.55% (which was reset on June 1, 2006) through May 2011. On June 1, 2011, and on each subsequent interest reset date for the bonds, we are required to redeem the bonds at face value plus any accrued and unpaid interest, unless a bondholder elects to retain his or her bonds. Any of the bonds redeemed by us at the demand of a bondholder on the reset date are required to be remarketed by the underwriter of the bonds on a best efforts basis. Funds for the redemption of the bonds on the demand of any bondholder are required to be obtained from the following sources in the following order of priority: (i) funds supplied by us for redemption; (ii) proceeds from the remarketing of the bonds; (iii) proceeds from a drawing under the bonds Letter of Credit held by the Bank Lenders (the IDB Letter of Credit); or (iv) in the event that funds from the foregoing sources are insufficient, a mandatory payment by us. Drawings under the IDB Letter of Credit to redeem the bonds on the demand of any bondholder are payable in full by us upon demand by the Bank Lenders. In addition, we are required to redeem the bonds in varying annual installments, ranging from \$0.4 million in fiscal 2010 to \$0.8 million in fiscal 2017. We are also required to redeem the bonds in certain other circumstances (for example, within 180 days after any determination that interest on the bonds is taxable). We have the option, subject to certain conditions, to redeem the bonds at face value plus accrued interest, if any.

In September 2006, we sold our Selma, Texas properties to two related party partnerships for \$14.3 million and are leasing them back. The selling price was determined by an independent appraiser to be the fair market value which also approximated our carrying value. The lease for the Selma, Texas properties has a ten-year term at a fair market value rent with three five-year renewal options. Also, we have an option to purchase the properties from the partnerships after five years at 95% (100% in certain circumstances) of the then fair market value, but not to be less than the \$14.3 million purchase price. The provisions of the arrangement are not eligible for sale-leaseback accounting and therefore the financing obligation is being accounted for similarly to the accounting for a capital lease, whereby \$14.3 million was recorded as a debt obligation. No gain or loss was recorded on the transaction. These partnerships were previously consolidated as variable interest entities. However, based on reconsideration events in the third quarter of fiscal 2006 and in the first quarter of fiscal 2007, we determined that the partnerships were no longer subject to consolidation as variable interest entities. These partnerships are no longer considered variable interest entities subject to consolidation because the partnerships had substantive equity at risk at the time of entering into the Selma, Texas sale-leaseback transaction. As of June 25, 2009, \$13.6 million of the debt obligation was outstanding.

Capital Expenditures.

We spent \$5.9 million of capital expenditures in fiscal 2009 compared to \$11.6 million in fiscal 2008. The decrease in capital expenditures is due to the completion of the facility consolidation project. Total capital expenditures for fiscal 2010 should be similar to the total for fiscal 2009.

Contractual Cash Obligations

At June 25, 2009, we had the following contractual cash obligations for long-term debt (including scheduled interest payments), capital leases, operating leases, the Credit Facility and purchase obligations (amounts in this subsection in thousands):

		Less Than			More Than 5
	Total	1 Year	1-3 Years	3-5 Years	Years
Long-term debt	\$ 93,788	\$ 15,178	\$ 16,272	\$ 11,064	\$ 51,274
Capital lease obligations	633	294	334	5	
Minimum operating lease commitments	2,654	1,099	1,382	173	
Revolving credit facility borrowings	33,232			33,232	
Purchase obligations	97,957	97,957			
Total contractual cash obligations	\$ 228,264	\$ 114,528	\$ 17,988	\$ 44,474	\$ 51,274

Amounts outstanding under our Credit Facility, while classified as current liabilities, are included in the 3-5 years column based upon the term of the Credit Facility. The purchase obligations represent \$97,957 of inventory purchases. Additionally, we have \$8,749 of projected retirement obligations recorded on our balance sheet as of June 25, 2009. See Note 10 in the Notes to Consolidated Financial Statements for further details. Also, as a licensed United States Department of Agriculture Nut Warehouse Operator, we are responsible for delivering the loan value of the peanut inventory in our possession as represented on the warehouse receipt to the holder of the warehouse receipt on demand. We are responsible for any decline in the value of the peanut inventory due to decline in quality or shrinkage. Based on current expectations and historical experience, no amounts related to a potential decline in the value of peanut inventory are included in the schedule above.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The accounting policies as disclosed in the Notes to Consolidated Financial Statements are applied in the preparation of our financial statements and accounting for the underlying transactions and balances. The policies discussed below are considered by our management to be critical for an understanding of our financial statements because the application of these policies places the most significant demands on management's judgment, with financial reporting results relying on estimation regarding the effect of matters that are inherently uncertain. Specific risks, if applicable, for these critical accounting policies are described in the following paragraphs. For a detailed discussion on the application of these and other accounting policies, see Note 1 of the Notes to Consolidated Financial Statements.

Preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. See *Forward Looking Statements* below.

Revenue Recognition.

We recognize revenue when persuasive evidence of an arrangement exists, title has transferred (based upon terms of shipment), price is fixed, delivery occurs and collection is reasonably assured. We sell our products under some arrangements which include customer contracts which fix the sales price for periods typically of up to one year for some industrial customers and through specific programs consisting of promotion allowances, volume and customer rebates and marketing allowances, among others, to consumer and food service customers. Reserves for these programs are established based upon the terms of specific arrangements. Revenues are recorded net of rebates and promotion and marketing allowances. Revenues are also recorded net of customer deductions which are provided for based upon past experiences. Our net accounts receivable includes an allowance for customer deductions. While customers do have the right to return products, past experience has demonstrated that product returns have been insignificant. Provisions for returns are reflected as a reduction in net sales and are estimated based upon customer specific circumstances.

Inventories.

Inventories, which consist principally of inshell bulk-stored nuts, shelled nuts and processed and packaged nut products, are stated at the lower of cost (first-in, first-out) or market. Inventory costs are reviewed at least quarterly. Fluctuations in the market price of pecans, peanuts, walnuts, almonds and other nuts may affect the value of inventory and gross profit and gross profit margin. When expected market sales prices move below costs, we record adjustments to write down the carrying values of inventories to lower of cost or market. The results of our shelling process can also result in changes to our inventory costs, for example based upon actual versus expected crop yields. We maintain significant inventories of bulk-stored inshell pecans, peanuts and walnuts. Quantities of inshell bulk-stored nuts are determined based upon our inventory systems and are subject to quarterly physical verification techniques including observation, weighing and other methods. The quantities of each crop year bulk-stored nut inventories are generally shelled out over a ten to fifteen month period, at which time revisions to any estimates are also recorded.

Impairment of Long-Lived Assets.

We review long-lived assets to assess recoverability from projected undiscounted cash flows (which also considers the underlying fair value of the properties) whenever events or changes in facts and circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized in operating results when future undiscounted cash flows are less than the assets' carrying value. The impairment loss would adjust the carrying value to the assets' fair value. We did not record any impairment charges during fiscal 2009.

Introductory Funds.

The ability to sell to certain retail customers often requires upfront payments to be made by us. Such payments are frequently made pursuant to contracts that stipulate the term of the agreement, the quantity and type of products to be sold and any exclusivity requirements. If appropriate, the cost of these payments is recorded as an asset and is amortized as a reduction to net sales over the term of the contract. All contracts that are capitalized include refundability provisions. We expense payments if no written arrangement exists.

Related Party Transactions.

As discussed in Notes 1, 4 and 11 of the Notes to Consolidated Financial Statements, we lease space from related parties and transact with other related parties in the normal course of business. We believe that these related party transactions are conducted on overall terms that are competitive with other non-related entities at the time the transactions are entered into.

Income Taxes.

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been reported in our financial statements or tax returns. Such items give rise to differences in the financial reporting and tax basis of assets and liabilities. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. Any investment tax credits are accounted for by using the flow-through method, whereby the credits are reflected as reductions of tax expense in the year they are recognized in the financial statements. In estimating future tax consequences, we consider all expected future events other than changes in tax law or rates.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on June 29, 2007. There were no material effects associated with the implementation of FIN 48. As of June 29, 2007, unrecognized tax benefits and accrued interest and penalties were not material. We recognize interest and penalties accrued related to unrecognized tax benefits in the income tax (benefit)/expense caption in the statement of operations. At the beginning of fiscal year 2009, we had a \$3.0 million valuation allowance associated with net deferred income tax assets, which included federal and state net operating loss (NOL) carryforwards. Our operating results for fiscal 2009 and our currently expected future profitability led to the elimination of our \$3.0 million valuation allowance as we currently believe it is more likely than not the deferred income tax assets will be realized. Our assessment of this circumstance considered a variety of factors, including:

The fact that since fiscal 2007, our income before income taxes has increased over \$27.0 million, from a pretax loss of (\$21.1) million to pretax income of \$6.7 million as a result of a variety of profit improvement initiatives.

Fiscal 2008 would have been profitable absent debt extinguishment and restructuring costs.

Procurement practices have been changed to minimize our exposure to commodity price changes after we have entered into sales commitments.

Completion of the facility consolidation project resulted in increased costs during the transition period and is now beginning to yield operating efficiencies.

Because of the elimination of valuation allowances on NOL carryforwards, we will no longer have the benefit of lower effective tax rates.

Additionally, since the third quarter of fiscal 2009, uncertainties related to the pistachio recall are resolved in all material respects, further supporting our assessment of the realization of net deferred tax asset in future periods.

As of June 25, 2009, unrecognized tax benefits and accrued interest and penalties were not material. We recognize interest and penalties accrued related to unrecognized tax benefits in the income tax (benefit) expense caption in the statement of operations.

We evaluate the realization of deferred tax assets by considering our historical taxable income and future taxable income based upon the reversal of deferred tax liabilities. At June 25, 2009, we believe that our deferred tax assets are fully realizable.

Recent Accounting Pronouncements.

During the first quarter of fiscal 2009, we adopted Emerging Issues Task Force (EITF) 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 required us to establish a long-term liability and charge opening retained earnings of \$593 thousand as of June 27, 2008, relating to the cost of maintaining the life insurance arrangements for two of our former employees and current directors. The amounts are being amortized over the expected term of the arrangements.

During the fourth quarter of fiscal 2009, we adopted Financial Staff Position (FSP) FAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP also amends APB Opinion No. 28,

Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement No. 107. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 only if an entity also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. We adopted FSP FAS 107-1 and APB 28-1 in the fourth quarter of 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our consolidated financial statements.

During the fourth quarter of fiscal 2009, we adopted Statement of Financial Accounting Standards No. 165 (SFAS 165) Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events occurring subsequent to the date of the balance sheet, but before financial statements are issued. The adoption of SFAS 165 did not have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007. Issued in February 2008, FSP 157-1 Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS 157. FSP 157-2 Partial Deferral of the Effective Date of Statement 157 (FSP 157-2), deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP 157-3). FSP 157-3, which is effective immediately, clarifies the application of SFAS 157 in a market that is not active. The implementation of SFAS 157 for financial assets and financial liabilities, effective for our first quarter of fiscal 2009, did not have a material impact on our consolidated financial position and results of operations. We are currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, which replaces SFAS No. 141. The statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are

recognized as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. In April 2009, the FASB issued FSP FAS 141(R)-1 which amends SFAS No. 141(R) by establishing a model to account for certain pre-acquisition contingencies. Under the FSP, an acquirer is required to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*—an interpretation of FASB Statement No. 5. SFAS No. 141(R) and FSP FAS 141(R)-1 were effective for us beginning June 26, 2009, and will apply prospectively to business combinations completed on or after that date. The impact of the adoption of SFAS No. 141(R) and FSP FAS 141(R)-1 will depend on the nature of acquisitions completed after the date of adoption. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*—an amendment of ARB No. 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in net income. SFAS No. 160 was effective for us beginning June 26, 2009, and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We believe the adoption of SFAS No. 160 will not have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities. These enhanced disclosures will discuss (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect any impact from SFAS No. 161 on our consolidated financial position, results of operations and cash flows because we do not use derivative instruments.

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—A Replacement of FASB Statement No. 162* (Statement No. 168). Under Statement No. 168, the FASB Accounting Standards Codification (Codification) will become the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal security laws are also sources of authoritative GAAP for SEC registrants. On the effective date of Statement No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become nonauthoritative. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. Statement No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will begin to use the new Codification when referring to GAAP in our quarterly report on Form 10-Q for the quarter ending September 24, 2009. We do not believe the effect of adopting Statement No. 168 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01, *Topic 105—Generally Accepted Accounting Principles* amendments based on Statement of Financial Accounting Standards No. 168—*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. Accounting Standards Update No. 2009-01 amends the FASB Accounting Standards Codification for the issuance of Statement No. 168. Accounting Standards Update No. 2009-01 includes Statement No. 168 in its entirety, including the accounting standards update instructions.

Forward Looking Statements

The statements contained in this Annual Report on Form 10-K, and in the Chief Executive Officer's letter to stockholders accompanying the Annual Report on Form 10-K delivered to stockholders, that are not historical (including statements concerning our expectations regarding market risk) are forward looking statements. These forward looking statements, which generally are followed (and therefore identified) by a cross reference to Part I, Item 1A Risk Factors or are identified by the use of forward looking words and phrases such as intends, may, believe and expects, represent our present expectations or beliefs concerning future events. We undertake no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors that affect the subject of these statements, except where expressly required to do so by law. We caution that such statements are qualified by important factors, including the factors described under Part I, Item 1A Risk Factors, that could cause actual results to differ materially from those in the forward looking statements, as well as the timing and occurrence (or nonoccurrence) of transactions and events that may be subject to circumstances beyond our control. Consequently, results actually achieved may differ materially from the expected results included in these statements.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of changes in interest rates, commodity prices of raw material purchases and foreign exchange. We have not entered into any arrangements to hedge against changes in market interest rates, commodity prices or foreign currency fluctuations.

We are unable to engage in hedging activity related to commodity prices, since there are no established futures markets for nuts. Approximately 31% of nut purchases for fiscal 2009 were made from foreign countries, and while these purchases were payable in U.S. dollars, the underlying costs may fluctuate with changes in the value of the U.S. dollar relative to the currency in the foreign country.

We are exposed to interest rate risk on our Credit Facility, our only variable rate credit facility because we have not entered into any hedging instruments which fix the floating rate. A hypothetical 10% adverse change in weighted-average interest rates would have had a \$0.2 million impact on our net income and cash flows from operating activities for fiscal 2009. In addition, the interest rate on our Mortgage Facility resets in the future.

Item 8 Financial Statements and Supplementary Data
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of John B. Sanfilippo & Son, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of John B. Sanfilippo & Son, Inc. and its subsidiaries (the Company) at June 25, 2009 and June 26, 2008, and the results of their operations and their cash flows for each of the three years in the period ended June 25, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 25, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which they account for the postretirement aspects of life insurance arrangements, effective as of June 27, 2008. Also, as discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which they account for uncertain tax positions as of June 29, 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
August 25, 2009

JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED BALANCE SHEETS

June 25, 2009 and June 26, 2008

(dollars in thousands, except per share amounts)

	June 25, 2009	June 26, 2008
ASSETS		
CURRENT ASSETS:		
Cash	\$ 863	\$ 716
Accounts receivable, less allowances of \$2,765 and \$2,217, respectively	34,760	34,424
Inventories	106,289	127,032
Income taxes receivable		222
Deferred income taxes	4,108	2,595
Prepaid expenses and other current assets	1,784	1,592
Asset held for sale		5,569
TOTAL CURRENT ASSETS	147,804	172,150
PROPERTY, PLANT AND EQUIPMENT:		
Land	9,463	9,463
Buildings	100,482	99,883
Machinery and equipment	150,266	147,631
Furniture and leasehold improvements	6,231	6,247
Vehicles	676	724
Construction in progress	1,734	1,411
	268,852	265,359
Less: Accumulated depreciation	134,648	123,626
	134,204	141,733
Rental investment property, less accumulated depreciation of \$3,559 and \$2,660, respectively	32,141	27,471
TOTAL PROPERTY, PLANT AND EQUIPMENT	166,345	169,204
Cash surrender value of officers' life insurance and other assets	7,981	8,435
Brand name, less accumulated amortization of \$7,351 and \$6,925, respectively	569	995
TOTAL ASSETS	\$ 322,699	\$ 350,784

The accompanying notes are an integral part of these consolidated financial statements.

JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED BALANCE SHEETS

June 25, 2009 and June 26, 2008

(dollars in thousands, except per share amounts)

	June 25, 2009	June 26, 2008
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Revolving credit facility borrowings	\$ 33,232	\$ 67,948
Current maturities of long-term debt, including related party debt of \$234 and \$216, respectively	11,690	12,251
Accounts payable, including related party payables of \$687 and \$449, respectively	23,479	25,355
Book overdraft	5,632	4,298
Accrued payroll and related benefits	8,713	7,740
Accrued workers compensation	5,159	4,838
Accrued restructuring		1,287
Other accrued expenses	7,149	5,570
Income taxes payable	49	
TOTAL CURRENT LIABILITIES	95,103	129,287
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities, including related party debt of \$13,410 and \$13,644, respectively	49,016	52,356
Retirement plan	8,095	8,174
Deferred income taxes	3,634	2,595
Other	1,352	
TOTAL LONG-TERM LIABILITIES	62,097	63,125
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Class A Common Stock, convertible to Common Stock on a per share basis, cumulative voting rights of ten votes per share, \$.01 par value; 10,000,000 shares authorized, 2,597,426 shares issued and outstanding	26	26
Common Stock, noncumulative voting rights of one vote per share, \$.01 par value; 17,000,000 shares authorized, 8,140,599 and 8,134,599 shares issued and outstanding, respectively	81	81
Capital in excess of par value	101,119	100,810
Retained earnings	68,177	61,853
Accumulated other comprehensive loss	(2,700)	(3,194)
Treasury stock, at cost; 117,900 shares of Common Stock	(1,204)	(1,204)
TOTAL STOCKHOLDERS EQUITY	165,499	158,372
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	\$ 322,699	\$ 350,784

The accompanying notes are an integral part of these consolidated financial statements.

JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended June 25, 2009, June 26, 2008 and June 28, 2007

(dollars in thousands, except for earnings per share)

	Year Ended June 25, 2009	Year Ended June 26, 2008	Year Ended June 28, 2007
Net sales	\$ 553,846	\$ 541,771	\$ 540,858
Cost of sales	481,447	475,538	499,569
Gross profit	72,399	66,233	41,289
Operating expenses:			
Selling expenses	36,465	34,899	39,003
Administrative expenses	20,685	18,898	16,454
Restructuring expenses	(332)	1,765	
Gain related to real estate sales			(3,047)
Total operating expenses	56,818	55,562	52,410
Income (loss) from operations	15,581	10,671	(11,121)
Other income (expense):			
Interest expense (\$1,092, \$1,109 and \$894 to related parties, respectively)	(7,646)	(10,502)	(9,347)
Debt extinguishment costs		(6,737)	
Rental and miscellaneous (expense) income, net	(1,277)	(286)	(629)
Total other expense, net	(8,923)	(17,525)	(9,976)
Income (loss) before income taxes	6,658	(6,854)	(21,097)
Income tax benefit	(259)	(897)	(7,520)
Net income (loss)	\$ 6,917	\$ (5,957)	\$ (13,577)
Income (loss) per common share (basic and diluted)	\$ 0.65	\$ (0.56)	\$ (1.28)
Weighted average shares outstanding basic	10,618,240	10,610,272	10,595,996
Weighted average shares outstanding diluted	10,635,277	10,610,272	10,595,996

The accompanying notes are an integral part of these consolidated financial statements.

JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the years ended June 25, 2009, June 26, 2008 and June 28, 2007

(dollars in thousands)

	Class A Common Stock		Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss		Treasury Stock	Total
	Shares	Amount	Shares	Amount			Loss	Stock		
Balance, June 29, 2006	2,597,426	\$ 26	8,112,099	\$ 81	\$ 99,820	\$ 81,387	\$		\$ (1,204)	\$ 180,110
Net loss and comprehensive loss						(13,577)				(13,577)
Stock option exercises			11,250		80					80
Tax benefit of stock option exercises					24					24
Stock-based compensation expense					411					411
SFAS No. 158 adjustment, net of income tax of \$2,185								(4,057)		(4,057)
Balance, June 28, 2007	2,597,426	\$ 26	8,123,349	\$ 81	\$ 100,335	\$ 67,810	\$ (4,057)		\$ (1,204)	\$ 162,991
Net loss						(5,957)				(5,957)
Pension liability amortization, net of income tax benefit of \$209								389		389
Pension liability adjustment, net of income tax benefit of \$255								474		474
Comprehensive loss										(5,094)
Stock option exercises			11,250		72					72
Tax benefit of stock option					6					6

exercises										
Stock-based compensation expense					397					397
Balance, June 26, 2008	2,597,426	\$ 26	8,134,599	\$ 81	\$ 100,810	\$ 61,853	\$ (3,194)	\$ (1,204)		\$ 158,372
Net income						6,917				6,917
Pension liability amortization, net of income tax benefit of \$222							412			412
Pension liability adjustment, net of income tax benefit of \$45							82			82
Comprehensive income										7,411
Stock option exercises			6,000		36					36
Stock-based compensation expense					273					273
Adoption of new accounting rule for life insurance arrangements							(593)			(593)
Balance, June 25, 2009	2,597,426	\$ 26	8,140,599	\$ 81	\$ 101,119	\$ 68,177	\$ (2,700)	\$ (1,204)		\$ 165,499

The accompanying notes are an integral part of these consolidated financial statements.

JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 25, 2009, June 26, 2008 and June 28, 2007

(dollars in thousands)

	Year Ended June 25, 2009	Year Ended June 26, 2008	Year Ended June 28, 2007
Cash flows from operating activities:			
Net income (loss)	\$ 6,917	\$ (5,957)	\$ (13,577)
Depreciation and amortization	15,922	15,742	13,584
Loss (gain) on disposition of properties	138	(8)	(3,162)
Deferred income tax benefit	(474)	(466)	(750)
Stock-based compensation expense	273	397	411
Change in current assets and current liabilities:			
Accounts receivable, net	(336)	1,600	(543)
Inventories	20,743	7,127	30,231
Prepaid expenses and other current assets	(192)	(442)	1,098
Accounts payable	(1,876)	4,091	(2,774)
Accrued expenses	1,586	1,313	(144)
Income taxes receivable/payable	271	6,490	(285)
Other operating assets	442	(270)	(1,615)
Net cash provided by operating activities	43,414	29,617	22,474
Cash flows from investing activities:			
Purchases of property, plant and equipment	(5,912)	(11,569)	(36,360)
Proceeds from disposition of assets	97	112	17,867
Cash surrender value of officers' life insurance	(205)	(205)	(289)
Net cash used in investing activities	(6,020)	(11,662)	(18,782)
Cash flows from financing activities:			
Borrowings under revolving credit facilities	162,548	70,859	138,491
Repayments of revolving credit borrowings	(197,264)	(92,940)	(129,551)
Initial borrowing under new revolving credit facility		82,031	
Payment of amounts outstanding under prior revolving credit facility		(65,283)	
Issuance of long-term debt		45,000	
Debt issuance costs		(3,273)	
Principal payments on long-term debt	(3,901)	(55,353)	(14,078)
Financing obligation with related parties			14,300
Increase/(decrease) in book overdraft	1,334	(717)	(9,286)
Issuance of Common Stock under option plans	36	72	80
Minority interest distribution			(3,545)
Tax benefit of stock option exercises		6	24
Net cash used in financing activities	(37,247)	(19,598)	(3,565)

Net increase (decrease) in cash	147	(1,643)	127
Cash:			
Beginning of period	716	2,359	2,232
End of period	\$ 863	\$ 716	\$ 2,359
Supplemental disclosures of cash flow information:			
Interest paid, net of interest capitalized	\$ 7,208	\$ 10,456	\$ 8,712
Income taxes paid, excluding refunds of \$141, \$6,675 and \$6,644, respectively	347	107	133
Capital lease obligations incurred		207	1,117

The accompanying notes are an integral part of these consolidated financial statements.

JOHN B. SANFILIPPO & SON, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

Our consolidated financial statements include the accounts of John B. Sanfilippo & Son, Inc., and its wholly-owned subsidiary, JBSS Properties, LLC. Our fiscal year ends on the last Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters). The accompanying consolidated financial statements and related footnotes are presented in accordance with accounting principles generally accepted in the United States of America (GAAP).

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include reserves for customer deductions, allowances for doubtful accounts, the quantity and valuation of bulk inventories, accruals for workers' compensation claims, income tax accruals and various other accrual accounts. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are stated at the amounts charged to customers, less: (i) allowances for doubtful accounts, and (ii) reserves for estimated cash discounts and customer deductions. The allowance for doubtful accounts is calculated by specifically identifying customers that are credit risks. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. The reserve for estimated cash discounts is based on actual payments. The reserve for customer deductions represents known customer short payments and an estimate of future credit memos that will be issued to customers related to rebates and allowances for marketing and promotions based on historical experience. Included in accounts receivable as of June 25, 2009 and June 26, 2008 are \$1,121 and \$1,000, respectively, relating to workers' compensation excess claim recovery.

Inventories

Inventories, which consist principally of inshell bulk-stored nuts, shelled nuts and processed and packaged nut products, are stated at the lower of cost (first-in, first-out) or market. Inventory costs are reviewed each quarter. Fluctuations in the market price of pecans, peanuts, walnuts, almonds, cashews and other nuts may affect the value of inventory, gross profit and gross profit margin. When expected market sales prices move below costs, we record adjustments to write down the carrying values of inventories to lower of cost or market. The results of our shelling process can also result in changes to inventory costs, such as adjustments made pursuant to actual versus expected crop yields. We maintain significant inventories of bulk-stored inshell pecans, peanuts and walnuts. Quantities of inshell bulk-stored nuts are determined based on our inventory systems and are subject to quarterly physical verification techniques including observation, weighing and other methods. The quantities of each crop year bulk-stored nut inventories are generally shelled out over a ten to fifteen month period, at which time revisions to any estimates are also recorded.

We store a large amount of peanut inventory on behalf of the United States government at various facilities. As a licensed United States Department of Agriculture Nut Warehouse Operator, we are responsible for delivering the loan value of the peanut inventory in our possession as represented on the warehouse receipt to the holder of the warehouse receipt on demand. We are responsible for any decline in the value of the peanut inventory due to decline in quality or shrinkage in excess of an allowable amount. No such declines in value are currently anticipated.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major improvements that extend the useful life or add capacity are capitalized and charged to expense through depreciation. Repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss is recognized currently in operating income. Cost is depreciated using the straight-line method over the following estimated useful lives: buildings 10 to 40 years, machinery and equipment 5 to 10 years, furniture and leasehold improvements 5 to 10 years and vehicles 3 to 5 years. Depreciation expense was \$14,105, \$14,063 and \$11,661 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. We capitalize interest costs on our projects. The amount of interest capitalized was \$0, \$0 and \$901 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

Certain prior lease transactions with two related party partnerships relating to the financing of buildings were previously accounted for as capital leases, whereby the present value of future rental payments, discounted at the interest rate implicit in the lease, was recorded as a liability. These leases were terminated at no cost to us in fiscal 2007 and 2006.

In September 2006, we sold our Selma, Texas properties to two related party partnerships for \$14.3 million and are leasing them back. The selling price was determined by an independent appraiser to be the fair market value which also approximated our carrying value. The lease for the Selma, Texas properties has a ten-year term at a fair market value rent with three five-year renewal options. Also, we have an option to purchase the properties from the partnerships after five years at 95% (100% in certain circumstances) of the then fair market value, but not to be less than the \$14.3 million purchase price. The financing obligation is being accounted for similar to the accounting for a capital lease whereby \$14.3 million was recorded as a debt obligation, as the provisions of the arrangement were not eligible for sale-leaseback accounting. No gain or loss was recorded on the transaction. These partnerships were previously consolidated as variable interest entities. Based on reconsideration events in the third quarter of 2006 and in the first quarter of fiscal 2007, we determined the partnerships were no longer subject to consolidation as variable interest entities. These partnerships are no longer considered variable interest entities subject to consolidation as the partnerships had substantive equity at risk at the time of entering into the Selma, Texas sale-leaseback transaction.

Long-Lived Assets

We review long-lived assets to assess recoverability from projected undiscounted cash flows (which also considers the underlying fair value of the properties) whenever events or changes in facts and circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss is recognized in operating results when future undiscounted cash flows are less than the assets' carrying value. The impairment loss would adjust the carrying value to the assets' fair value. To date, we have not recorded any impairment charges.

Facility Consolidation Project/Real Estate Transactions

In April 2005, we acquired property to be used for the New Site. Two buildings are located on the New Site, one of which is an office building of which 41.5% was leased back to the seller through April 2008. The seller opted to not renew the lease, and we have yet to find replacement tenants. Approximately 80% of the office building is currently vacant. The other building, a warehouse, was expanded and modified for use as our principal processing facility and headquarters. The allocation of the purchase price to the two buildings was determined through a third party appraisal. The value assigned to the office building is included in rental investment property on the balance sheet. The value assigned to the warehouse building is included in property, plant and equipment.

The net rental income from the office building included in rental and miscellaneous expense (income), net, was an expense of \$1,864, \$867 and \$1,122 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Gross rental income was \$1,159, \$2,324 and \$1,740 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Expected future gross rental income under the office building operating lease is as follows for the years ending:

June 24, 2010	\$ 1,198
June 30, 2011	1,388
June 28, 2012	1,323
June 27, 2013	1,303
June 26, 2014	1,316
Thereafter	3,094
	\$ 9,622

On March 28, 2006, JBSS Properties, LLC acquired title by quitclaim deed to the site that was originally purchased in Elgin, Illinois (the Original Site) for our facility consolidation project and JBSS Properties, LLC entered into an Assignment and Assumption Agreement (the Agreement) with the City of Elgin (the City). Under the terms of the Agreement, the City assigned to us the City's remaining rights and obligations under a development agreement entered into by and among our Company, certain related party partnerships and the City (the Development Agreement). We subsequently entered into a sales contract with a potential buyer of the Original Site. The sales contract was recently terminated as the potential buyer was unable to secure financing. While we are currently actively searching for new potential buyers of the Original Site, we cannot ensure that a sale will occur in the next twelve months. We therefore reclassified \$5.6 million from current assets to property, plant and equipment. The Mortgage Facility is secured, in part, by the Original Site. We must obtain the consent of the Mortgage Lender prior to the sale of the Original Site. A portion of the Original Site contains an office building (which we began renting during the third quarter of fiscal 2007) that may or may not be included in any future sale. Our total costs under the Development Agreement were \$6,806 as of June 25, 2009 and June 26, 2008, (i) \$5,569 of which is currently recorded as a component of Property, Plant and Equipment as of June 25, 2009 and was previously recorded as an Asset Held for Sale as of June 26, 2008 and (ii) \$1,237 of which is recorded as Rental Investment Property. We have reviewed the assets under the Development Agreement and concluded that no adjustment of the carrying value is required.

In furtherance of our facility consolidation project, we sold our Chicago area facilities in July 2006. One such Chicago area facility (the Busse Road facility) was owned directly by us and the remaining portion owned by a consolidated partnership, a variable interest entity. The lease between us and the partnership was terminated in July 2006 upon completion of the property sale transaction. The related party partnership sold the property to a third party, and the property was leased back to us through December 2007. The proceeds upon disposition of the property by the partnership totaled \$9.6 million (with \$2.0 million directly allocable to our owned portion of the property), resulting in us recognizing a gain of approximately \$4.6 million (net of \$1.3 million being deferred and amortized as reductions in rental expense over the lease term), with offsetting amounts applicable to the partnership's minority interest of \$4.6 million. As we were the primary beneficiary of the partnership, upon consolidation of the partnership as a variable interest entity, the deficit, which includes losses in excess of the minority interest, was absorbed by us. Upon sale of the facility by the partnership for a gain, the previously recognized losses attributable to the minority interest of approximately \$1.1 million were recovered by us to the extent such losses were previously allocated to our operations in consolidation and reduced any gain allocable to the partnership interest.

Also in July 2006, we sold our Arlington Heights and Arthur Avenue facilities for a combined \$7.8 million in proceeds and leased back the facilities from the purchaser. The Arlington Heights facility was leased back by us through December 2008. The Arthur Avenue facility was leased back through August 2008. The gain on these property sale transactions totaled \$1.8 million, net of \$1.2 million being deferred and amortized as reductions in rental expense over the lease terms, ranging from 17 to 29 months. We ceased operations at the Arlington Heights facility during the second quarter of fiscal 2008 and recognized \$173 of restructuring expense due to the transfer of operations prior to the lease expiration. In order to sell the Arlington Heights facility, we prepaid our existing mortgage obligations of \$1,684 plus a \$279 prepayment fee.

In September 2006, we sold our Selma, Texas properties to two related party partnerships for \$14.3 million and are leasing them back. The selling price was determined by an independent appraiser to be the fair market value which

also approximated our carrying value. The lease for the Selma, Texas properties has a ten-year term at a fair market value rent with three five-year renewal options. Also, we have an option to purchase the properties from the partnerships after five years at 95% (100% in certain circumstances) of the then fair market value, but not to be less than the \$14.3 million purchase price. The financing obligation is being accounted for similar to the accounting for a capital lease whereby \$14.3 million was recorded as a

debt obligation, as the provisions of the arrangement are not eligible for sale-leaseback accounting. No gain or loss was recorded on the transaction. These partnerships were previously consolidated as variable interest entities. Based on reconsideration events in the third quarter of 2006 and in the first quarter of fiscal 2007, we determined the partnerships were no longer subject to consolidation as variable interest entities. These partnerships are no longer considered variable interest entities subject to consolidation as the partnerships had substantive equity at risk at the time of entering into the Selma, Texas sale-leaseback transaction.

Introductory Funds

The ability to sell to certain retail customers often requires upfront payments to be made by us. Such payments are frequently made pursuant to contracts that stipulate the term of the agreement, the quantity and type of products to be sold and any exclusivity requirements. If appropriate, the cost of these payments is recorded as an asset and is amortized over the term of the contract. We expense payments if no written arrangement exists and amounts are not recoverable in the event of customer cancellation. Total introductory funds included in prepaid expenses and other current assets were \$1,092 at June 25, 2009 and \$882 at June 26, 2008. Amortization expense, which is recorded as a reduction in net sales, was \$1,390, \$1,252 and \$1,497 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

Brand Name

Brand name consists of the Fisher brand name that was acquired in 1995. We are amortizing the brand name over a fifteen-year period on a straight-line basis with no estimated residual value. Annual amortization expense for fiscal 2010 is expected to be \$427, with the remaining amount of \$142 amortized in fiscal 2011. Amortization expense was \$426, \$427 and \$426 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

Fair Value of Financial Instruments

The fair value of our fixed rate debt as of June 25, 2009, including current maturities, was estimated to be approximately \$29,000 compared to a carrying value of \$33,400. The fair value of the fixed rate debt was determined using a market approach, which estimates fair value based on companies with similar credit quality and size of debt issuances for similar terms. The carrying amounts of our other financial instruments approximate their estimated fair values.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, title has transferred (based upon terms of shipment), price is fixed, delivery occurs and collection is reasonably assured. We sell our products under some arrangements which include customer contracts which fix the sales price for periods, typically of up to one year, for some industrial customers and through specific programs consisting of promotion allowances, volume and customer rebates and marketing allowances, among others, to consumer and food service customers. Revenues are recorded net of rebates and promotion and marketing allowances. While customers do have the right to return products, past experience has demonstrated that product returns have been insignificant. Provisions for returns are reflected as a reduction in net sales and are estimated based upon customer specific circumstances. Billings for shipping and handling costs are included in revenues.

Significant Customers

The highly competitive nature of our business provides an environment for the loss of customers and the opportunity to gain new customers. Net sales to Wal-Mart Stores, Inc. represented approximately 19%, 19% and 20% of our net sales for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Net accounts receivable from Wal-Mart Stores, Inc. were \$3,719 and \$3,510 at June 25, 2009 and June 26, 2008, respectively.

Promotion and Advertising Costs

Promotion allowances, customer rebates and marketing allowances are recorded at the time revenue is recognized and are reflected as reductions in sales. Annual volume rebates are estimated based upon projected volumes for the year, while promotion and marketing allowances are recorded based upon terms of the actual arrangements. Coupon incentive costs are accrued based on estimates of product shipped to retailers at our measurement date and an estimate of redemptions to occur. We expense the costs of advertising, which include newspaper and other advertising activities, as incurred. Advertising expenses for the years ended June 25, 2009, June 26, 2008 and June 28, 2007 were \$5,149, \$2,346 and \$2,778, respectively.

Shipping and Handling Costs

Shipping and handling costs, which include freight and other expenses to prepare finished goods for shipment, are included in selling expenses. For the years ended June 25, 2009, June 26, 2008 and June 28, 2007, shipping and handling costs totaled \$13,698, \$15,551 and \$18,291, respectively.

Income Taxes

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been reported in our financial statements or tax returns. Such items give rise to differences in the financial reporting and tax basis of assets and liabilities. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. Any investment tax credits are accounted for by using the flow-through method, whereby the credits are reflected as reductions of tax expense in the year they are recognized in the financial statements. In estimating future tax consequences, we consider all expected future events other than changes in tax law or rates. We recognize interest and penalties accrued related to unrecognized tax benefits in the income tax (benefit)/expense caption in the statement of operations.

Segment Reporting

We operate in a single reportable operating segment that consists of selling various nut products through multiple distribution channels.

Earnings per Share

Earnings per common share are calculated using the weighted average number of shares of Common Stock and Class A Stock outstanding during the period. The following table presents the reconciliation of the weighted average shares outstanding used in computing earnings per share:

	Year Ended June 25, 2009	Year Ended June 26, 2008	Year Ended June 28, 2007
Weighted average shares outstanding basic	10,618,240	10,610,272	10,595,996
Effect of dilutive securities:			
Stock options and restricted stock units	17,037		
Weighted average shares outstanding diluted	10,635,277	10,610,272	10,595,996

356,875 stock options with a weighted average exercise price of \$12.48 were excluded from the computation of diluted earnings per share for the year ended June 25, 2009, due to the exercise price exceeding the average market price of the Common Stock. All outstanding options were excluded from the calculation of diluted earnings per share for the years ended June 26, 2008 and June 28, 2007 due to net losses. Total options excluded from the calculation of diluted earnings per share were 470,440 and 353,690 for the years ended June 26, 2008 and June 28, 2007, respectively. These options had weighted average exercise prices of \$11.49 and \$13.00, respectively.

Comprehensive Income (Loss)

We account for comprehensive income (loss) in accordance with SFAS 130, Reporting Comprehensive Income. This statement establishes standards for reporting and displaying comprehensive income (loss) and its components in a full set of general-purpose financial statements. The statement requires that all components of comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements.

Subsequent Events

We evaluated events occurring between the end of our most recent fiscal year and August 25, 2009, the date the financial statements were available to be issued. No significant subsequent event occurred.

Recent Accounting Pronouncements

During the first quarter of fiscal 2009, we adopted Emerging Issues Task Force (EITF) 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 required us to establish a long-term liability and charge opening retained earnings of \$593 as of June 27, 2008, relating to the cost of maintaining the life insurance arrangements for two of our former employees and current directors. The amounts are being amortized over the expected term of the arrangements.

During the fourth quarter of fiscal 2009, we adopted Financial Staff Position (FSP) FAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP also amends APB Opinion No. 28,

Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this FSP, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by Statement No. 107. FSP 107-1 and APB 28-1 are effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 only if an entity also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. We adopted FSP FAS 107-1 and APB 28-1 in the fourth quarter of 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on our consolidated financial statements.

During the fourth quarter of fiscal 2009, we adopted Statement of Financial Accounting Standards No. 165 (SFAS 165) Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events occurring subsequent to the date of the balance sheet, but before financial statements are issued. The adoption of SFAS 165 did not have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007. Issued in February 2008, FSP 157-1 Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS 157. FSP 157-2 Partial Deferral of the Effective Date of Statement 157 (FSP 157-2), deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP 157-3). FSP 157-3, which is effective immediately, clarifies the application of SFAS 157 in a market that is not active. The implementation of SFAS 157 for financial assets and financial liabilities,

effective for our first quarter of fiscal 2009, did not have a material impact on our consolidated financial position and results of operations. We are currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which replaces SFAS No. 141. The statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. In April 2009, the FASB issued FSP FAS 141(R)-1 which amends SFAS No. 141(R) by establishing a model to account for certain pre-acquisition contingencies. Under the FSP, an acquirer is required to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*—an interpretation of FASB Statement No. 5. SFAS No. 141(R) and FSP FAS 141(R)-1 were effective for us beginning June 26, 2009, and will apply prospectively to business combinations completed on or after that date. The impact of the adoption of SFAS No. 141(R) and FSP FAS 141(R)-1 will depend on the nature of acquisitions completed after the date of adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*—an amendment of ARB No. 51, which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in net income and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in net income. SFAS No. 160 was effective for us beginning June 26, 2009, and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We believe the adoption of SFAS No. 160 will not have a material impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities. These enhanced disclosures will discuss (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We do not expect any impact from SFAS No. 161 on our consolidated financial position, results of operations and cash flows because we do not use derivative instruments.

In June 2009, the FASB issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—A Replacement of FASB Statement No. 162*. Under Statement No. 168, the FASB Accounting Standards Codification (Codification) will become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal security laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included in the Codification will become nonauthoritative. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will begin to use the new Codification when referring to GAAP in our quarterly report on Form 10-Q for the quarter ending September 24, 2009. We do not believe the effect of adopting Statement No. 168 will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued Accounting Standards Update No. 2009-01, Topic 105 Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting

Principles. Accounting Standards Update No. 2009-01 amends the FASB Accounting Standards Codification for the issuance of Statement No. 168. Accounting Standards Update No. 2009-01 includes Statement No. 168 in its entirety, including the accounting standards update instructions.

NOTE 2 INVENTORIES

Inventories consist of the following:

	June 25, 2009	June 26, 2008
Raw material and supplies	\$ 50,525	\$ 59,770
Work-in-process and finished goods	55,764	67,262
Total	\$ 106,289	\$ 127,032

NOTE 3 REVOLVING CREDIT FACILITY

On February 7, 2008, we entered into a Credit Agreement with a new bank group (the Bank Lenders) providing a \$117.5 million revolving loan commitment and letter of credit subfacility (the Credit Facility). Also on February 7, 2008, we entered into a Loan Agreement with an insurance company (the Mortgage Lender) providing us with two term loans, one in the amount of \$36.0 million (Tranche A) and the other in the amount of \$9.0 million (Tranche B), for an aggregate amount of \$45.0 million (the Mortgage Facility). The Credit Facility and Mortgage Facility (sometimes collectively referred to as our new financing arrangements) replaced our prior revolving credit facility (the Prior Credit Facility) and long-term financing facility (the Prior Note Agreement). Our new financing arrangements were secured, in part, to generally obtain more flexible covenants than those associated with the Prior Note Agreement and Prior Credit Facility, which we were not in full compliance with during the first three quarters of fiscal 2008. We currently have full access to our new financing; however, it is possible that current economic and credit conditions could adversely impact our Bank Lenders' ability to honor their commitments to us under the Credit Facility. The Credit Facility is secured by substantially all our assets other than real property and fixtures. The Mortgage Facility is secured by mortgages on essentially all of our owned real property located in Elgin, Illinois, Gustine, California and Garysburg, North Carolina (the Encumbered Properties). The encumbered Elgin, Illinois real property includes almost all of an original site (the Original Site) that was purchased prior to our purchase of the land in Elgin, Illinois, on which our Chicago area operations are now consolidated. We had previously entered into a sales contract with a potential buyer of the Original Site. The sales contract was terminated during the second quarter of fiscal 2009 as the potential buyer was unable to secure financing. We therefore reclassified \$5,569 from current assets to property, plant and equipment.

The Credit Facility matures on February 7, 2013. At our election, borrowings under the Credit Facility accrue interest at either: (i) a rate determined pursuant to the administrative agent's prime rate minus an applicable margin determined by reference to the amount of loans which may be advanced under a borrowing base calculation based upon accounts receivable, inventory and machinery and equipment (the Borrowing Base Calculation), ranging from 0.00% to 0.50% or (ii) a rate based on the London interbank offered rate (LIBOR) plus an applicable margin based upon the Borrowing Base Calculation, ranging from 2.00% to 2.50%. The face amount of undrawn letters of credit accrues interest at a rate of 1.50% to 2.00%, based upon the Borrowing Base Calculation. The portion of the Borrowing Base Calculation based upon machinery and equipment will decrease by \$1.5 million per year for the first five years to coincide with amortization of the machinery and equipment collateral. As of June 25, 2009, the weighted average interest rate for the Credit Facility was 2.46%. The terms of the Credit Facility contain covenants that require us to restrict investments, indebtedness, capital expenditures, acquisitions and certain sales of assets, cash dividends, redemptions of capital stock and prepayment of indebtedness (if such prepayment, among other things, is of a subordinate debt). If loan availability under the Borrowing Base Calculation falls below \$15.0 million, we will be required to maintain a specified fixed charge coverage ratio, tested on a monthly basis. All cash received from customers is required to be applied against the Credit Facility. The Credit Facility does not include, among other things, a working capital, EBITDA, net worth, excess availability, leverage or debt service coverage financial

covenant. The Bank Lenders are entitled to require immediate repayment of our obligations under the Credit Facility in the event of default on the payments

required under the Credit Facility, non-compliance with the financial covenants or upon the occurrence of certain other defaults by us under the Credit Facility (including a default under the Mortgage Facility). As of June 25, 2009, we were in compliance with all covenants under the Credit Facility and we currently expect to be in compliance with the financial covenant in the Credit Facility for the foreseeable future. As of June 25, 2009, we had \$58.8 million of available credit under the Credit Facility. We would still be in compliance with all restrictive covenants under the Bank Credit Facility if this entire amount were borrowed.

NOTE 4 LONG-TERM DEBT

Long-term debt consists of the following:

	June 25, 2009	June 26, 2008
Mortgage facility (Tranche A), collateralized by real property, due in monthly principal installments of \$200 plus interest at 7.63% per annum from June 2008 to February 2008 with a final principal payment of \$600 in March 2023	\$ 33,400	\$ 35,800
Mortgage facility (Tranche B), collateralized by real property, due in monthly principal installments of \$50 plus interest at LIBOR plus 5.50% per annum from June 2008 to February 2008 with a final principal payment of \$150 in March 2023	8,350	8,950
Industrial development bonds, collateralized by building, machinery and equipment with a cost aggregating \$8,000	4,720	5,125
Selma, Texas facility financing obligation to related parties, due in monthly installments of \$109 through September 1, 2031	13,644	13,860
Capitalized equipment leases	592	872
	60,706	64,607
Less: Current maturities	(11,690)	(12,251)
Total long-term debt	\$ 49,016	\$ 52,356

The Mortgage Facility matures on March 1, 2023. Tranche A under the Mortgage Facility accrues interest at a fixed interest rate of 7.63% per annum, payable monthly. Such interest rate may be reset by the Mortgage Lender on March 1, 2018 (the Tranche A Reset Date). Monthly principal payments in the amount of \$200 commenced on June 1, 2008. Tranche B under the Mortgage Facility accrues interest at a floating rate of one month LIBOR plus 5.50% per annum, payable monthly. The margin on such floating rate may be reset by the Mortgage Lender on March 1, 2010 and every two years thereafter (each, a Tranche B Reset Date); provided, however, that the Mortgage Lender may also change the underlying index on each Tranche B Reset Date occurring on or after March 1, 2016. Monthly principal payments in the amount of \$50 commenced on June 1, 2008.

On the Tranche A Reset Date and each Tranche B Reset Date, the Mortgage Lender may reset the interest rates for each of Tranche A and Tranche B, respectively, in its sole and absolute discretion. With respect to Tranche A, if we do not accept the reset rate, Tranche A will become due and payable on the Tranche A Reset Date, without prepayment penalty. With respect to Tranche B, if we do not accept the reset rate, Tranche B will be due and payable on the Tranche B Reset Date, without prepayment penalty. There can be no assurance that the reset interest rates for each of Tranche A and Tranche B will be acceptable to us. If the reset interest rate for either Tranche A or Tranche B is unacceptable to us and we: (i) do not have sufficient funds to repay amounts due with respect to Tranche A or Tranche B, as applicable, on the Tranche A Reset Date or Tranche B Reset Date, as applicable or (ii) are unable to refinance amounts due with respect to Tranche A or Tranche B, as applicable, on the Tranche A Reset Date or Tranche B Reset Date, as applicable, on terms more favorable than the reset interest rates, then such reset interest rates could have an adverse effect on our financial condition, results of operations and financial results.

The terms of the Mortgage Facility contain covenants that require us to maintain a specified net worth of \$110.0 million and maintain the Encumbered Properties. The Mortgage Facility is secured, in part, by the Original Site, a portion of which we are currently attempting to sell. We must obtain the consent of the Mortgage Lender prior to the sale of the Original Site. The Mortgage Facility does not include, among other things, a working capital, EBITDA, excess availability, fixed charge coverage, capital expenditure, leverage or debt service coverage financial covenant. The Mortgage Lender is entitled to require immediate repayment of our obligations under the Mortgage Facility in the event we default in the payments required under the Mortgage Facility, non-compliance with the covenants or upon the occurrence of certain other defaults by us under the Mortgage Facility. As of June 25, 2009, we were in compliance with all covenants under the Mortgage Facility. We currently believe that we will be in compliance with the financial covenant in the Mortgage Facility for the foreseeable future and therefore \$31.0 million has been classified as long-term debt as of June 25, 2009. This amount represents scheduled principal payments due under Tranche A beyond twelve months of June 25, 2009.

We financed the construction of a peanut shelling plant with industrial development bonds in 1987. On June 1, 2006, we remarketed the bonds, resetting the interest rate at 4.55% through May 2011, and at a market rate to be determined thereafter. On June 1, 2011, and on each subsequent interest reset date for the bonds, we are required to redeem the bonds at face value plus any accrued and unpaid interest, unless a bondholder elects to retain his or her bonds. Any bonds redeemed by us at the demand of a bondholder on the reset date are required to be remarketed by the underwriter of the bonds on a best efforts basis. The agreement requires us to redeem the bonds in varying annual installments, ranging from \$440 to \$760 annually through 2017. We are also required to redeem the bonds in certain other circumstances, for example, within 180 days after any determination that interest on the bonds is taxable. We have the option at any time, however, subject to certain conditions, to redeem the bonds at face value plus accrued interest, if any.

In September 2006, we sold our Selma, Texas properties to two related party partnerships for \$14.3 million and are leasing them back. The selling price was determined by an independent appraiser to be the fair market value which also approximated our carrying value. The lease for the Selma, Texas properties has a ten-year term at a fair market value rent with three five-year renewal options. Also, we have an option to purchase the properties from the partnerships after five years at 95% (100% in certain circumstances) of the then fair market value, but not to be less than the \$14.3 million purchase price. The financing obligation is being accounted for similar to the accounting for a capital lease, whereby \$14.3 million was recorded as a debt obligation, as the provisions of the arrangement are not eligible for sale-leaseback accounting. No gain or loss was recorded on the transaction. These partnerships were previously consolidated as variable interest entities. Based on reconsideration events in the third quarter of 2006 and in the first quarter of fiscal 2007, we determined the partnerships were no longer subject to consolidation as variable interest entities. These partnerships are no longer considered variable interest entities subject to consolidation as the partnerships had substantive equity at risk at the time of entering into the Selma, Texas sale-leaseback transaction. Aggregate maturities of long-term debt are as follows for the years ending:

June 24, 2010	\$ 11,690
June 30, 2011	7,213
June 28, 2012	2,716
June 27, 2013	2,702
June 26, 2014	2,721
Thereafter	33,664
Total	\$ 60,706

NOTE 5 INCOME TAXES

The benefit provision for income taxes for the years ended June 25, 2009, June 26, 2008 and June 28, 2007 are as follows:

	June 25, 2009	June 26, 2008	June 28, 2007
Current	\$ 215	\$ (431)	\$ (6,770)
Deferred	(474)	(466)	(750)
Total benefit for income taxes	\$ (259)	\$ (897)	\$ (7,520)

The reconciliations of income taxes at the statutory federal income tax rate to income taxes reported in the statements of operations for the years ended June 25, 2009, June 26, 2008 and June 28, 2007 are as follows:

	June 25, 2009	June 26, 2008	June 28, 2007
Federal statutory income tax rate	35.0%	(35.0)%	(35.0)%
State income taxes, net of federal benefit	7.8	(6.9)	(4.4)
Effect of SFAS 158		(3.8)	
Net change in valuation allowance for net deferred tax assets	(45.5)	30.9	4.4
Other	(1.2)	1.7	(0.6)
Effective tax rate	(3.9)%	(13.1)%	(35.6)%

The deferred tax assets and liabilities are comprised of the following:

	June 25, 2009		June 26, 2008	
	Asset	Liability	Asset	Liability
Current				
Accounts receivable	\$ 211	\$	\$ 160	\$
Employee compensation	1,503		1,182	
Inventory	287		93	
Deferred revenue			15	
Workers compensation	1,534		1,458	
Valuation allowance			(1,091)	
Restructuring			541	
Other	573		237	
Total current	\$ 4,108	\$	\$ 2,595	\$
Long term				
Depreciation	\$	\$ (10,224)	\$	\$ (9,264)
Amortization		(24)	79	
Capitalized leases	319		234	
Operating loss carryforwards	2,757		4,948	
Retirement plan	3,076		3,106	
Valuation allowance			(1,947)	
Other	462		249	

Total long-term	\$ 6,614	\$ (10,248)	\$ 6,669	\$ (9,264)
Total	\$ 10,722	\$ (10,248)	\$ 9,264	\$ (9,264)

At the beginning of fiscal year 2009, we had a valuation allowance of \$3.0 million. Our deferred income tax assets included \$2.4 million of state net operating loss (NOL) tax benefits (\$1.6 million net of the federal effect) and \$3.3 million of pretax federal net operating loss (NOL) carryforwards for income tax purposes. The state NOL carryforward tax benefits relate to losses generated during the years ended June 26, 2008, June 28, 2007 and June 29, 2006, which generally have a carryforward period of approximately 12 years before expiration. The federal NOL carryforward relates to losses generated during the year ended June 26, 2008, which generally have a carryforward period of 20 years before expiration. As of June 26, 2008, our future profitability was uncertain and we therefore provided a valuation allowance of \$3.0 million related to our deferred income tax assets, to the extent such assets exceeded the deferred income tax liabilities that were expected to reverse in future periods. Based on our improved operating results for fiscal 2009 and our currently expected future profitability, we eliminated the beginning of the year valuation

allowance during the fourth quarter of fiscal 2009 as we currently believe the weight of such evidence indicates it is currently more likely than not the net deferred income tax assets will be realized. Our assessment of this circumstance considered a variety of factors, including:

The fact that since fiscal 2007, our income before income taxes has increased over \$27.0 million, from a pretax loss of (\$21.1) million to pretax income of \$6.7 million as a result of a variety of profit improvement initiatives.

Fiscal 2008 would have been profitable absent debt extinguishment and restructuring costs.

Procurement practices have been changed to minimize our exposure to commodity price changes after we have entered into sales commitments.

Completion of the facility consolidation project resulted in increased costs during the transition period and is now beginning to yield operating efficiencies.

Additionally, since the third quarter of fiscal 2009, uncertainties related to the pistachio recall are resolved in all material respects, further supporting our assessment of the realization of net deferred tax asset in future periods. We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on June 29, 2007. There were no material effects associated with the implementation of FIN 48. As of June 25, 2009, unrecognized tax benefits and accrued interest and penalties were not material. We recognize interest and penalties accrued related to unrecognized tax benefits in the income tax (benefit) expense caption in the statement of operations. We file income tax returns with federal and state tax authorities within the United States of America. The Internal Revenue Service has concluded auditing our Company's tax return for fiscal 2004, and there was no material impact to our Company. The Illinois Department of Revenue has concluded its audits of our tax returns through fiscal 2005, and there was no material impact to our Company. No other tax jurisdictions are material to us. There have been no material changes to the amount of unrecognized tax benefits during fiscal 2009. We do not anticipate that total unrecognized tax benefits will significantly change in the future.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease buildings and certain equipment pursuant to agreements accounted for as operating leases. Rent expense under these operating leases aggregated \$1,269, \$2,032 and \$2,723 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Aggregate non-cancelable lease commitments under these operating leases are as follows for the years ending:

June 24, 2010	\$ 1,099
June 30, 2011	878
June 28, 2012	504
June 27, 2013	170
June 26, 2014	3
Thereafter	\$ 2,654

Litigation

We are a party to various lawsuits, proceedings and other matters arising out of the conduct of our business. It is management's opinion that the ultimate resolution of these matters will not have a significant effect upon our business, financial condition or results of operations.

NOTE 7 STOCKHOLDERS EQUITY

Our Class A Common Stock, \$.01 par value (the Class A Stock), has cumulative voting rights with respect to the election of those directors which the holders of Class A Stock are entitled to elect, and 10 votes per share on all other matters on which holders of our company s Class A Stock and Common Stock are entitled to vote. In addition, each share of Class A Stock is convertible at the option of the holder at any time into one share of Common Stock and automatically converts into one share of Common Stock upon any sale or transfer other than to related individuals. Each share of our company s Common Stock, \$.01 par value (the Common Stock) has noncumulative voting rights of one vote per share. The Class A Stock and the Common Stock are entitled to share equally, on a share-for-share basis, in any cash dividends declared by the Board of Directors, and the holders of the Common Stock are entitled to elect 25% of the members comprising the Board of Directors. No dividends have been declared since 1995.

NOTE 8 STOCK-BASED COMPENSATION PLANS

At our annual meeting of stockholders on October 30, 2008, our stockholders approved a new equity incentive plan (the 2008 Equity Incentive Plan) under which awards of options and stock-based awards may be made to members of the Board of Directors, employees and other individuals providing services to our Company. A total of 1,000,000 shares of Common Stock are authorized for grants of awards, which may be in the form of options, restricted stock, restricted stock units, stock appreciation rights, Common Stock or dividends and dividend equivalents. A maximum of 500,000 of the 1,000,000 shares of Common Stock may be used for grants of Common Stock, restricted stock and restricted stock units. Additionally, awards of options or stock appreciation rights are limited to 100,000 shares annually, and awards of Common Stock, restricted stock or restricted stock units are limited to 50,000 shares annually. During the second quarter of fiscal 2009, 46,500 restricted stock units were awarded to employees and members of the Board of Directors. The vesting period is three years for awards to employees and one year for awards to non-employee members of the Board of Directors. We are recognizing expenses over the applicable vesting period based on the market value of our Common Stock at the grant date. As of June 25, 2009, all restricted unit awards remain outstanding with a weighted average remaining life of 2.0 years. Also, 1,500 stock options were granted during fiscal 2009 under the 2008 Equity Incentive Plan. The exercise price of the options was determined as set forth in the 2008 Equity Incentive Plan by the Compensation Committee of our Board of Directors. The exercise price for the stock options must be at least the fair market value of the Common Stock on the date of grant. Except as set forth in the 2008 Equity Incentive Plan, options expire upon termination of employment or directorship. The options granted under the 2008 Equity Incentive Plan are exercisable 25% annually commencing on the first anniversary date of grant and become fully exercisable on the fourth anniversary date of grant. Options generally will expire no later than ten years after the date on which they are granted. We issue new shares of Common Stock upon exercise of stock options. As of June 25, 2009, 952,000 shares of Common Stock remain authorized for future grants of awards.

The 2008 Equity Incentive Plan replaced a stock option plan approved at our annual meeting of stockholders on October 28, 1998 (the 1998 Equity Incentive Plan) under which awards of options and stock-based awards could be made. There were 700,000 shares of Common Stock authorized for issuance to certain key employees and outside directors (i.e., directors who are not employees of our Company). The exercise price of the options was determined as set forth in the 1998 Equity Incentive Plan by the Board of Directors. The exercise price for the stock options was at least the fair market value of the Common Stock on the date of grant. Except as set forth in the 1998 Equity Incentive Plan, options expire upon termination of employment or directorship. The options granted under the 1998 Equity Incentive Plan are exercisable 25% annually commencing on the first anniversary date of grant and become fully exercisable on the fourth anniversary date of grant. Options generally will expire no later than ten years after the date on which they are granted. We issue new shares of Common Stock upon exercise of stock options. Through fiscal 2007, all of the options granted, except those granted to outside directors, were intended to qualify as incentive stock options within the meaning of Section 422 of the Internal Revenue Code. Effective fiscal 2008, all option grants are non-qualified awards. The 1998 Equity Incentive Plan terminated on September 1, 2008. However, all outstanding options issued pursuant to the 1998 Equity Incentive Plan will continue to be governed by the terms of the 1998 Equity Incentive Plan.

We determine fair value of stock option awards using the Black-Scholes option-pricing model. The following assumptions were used to value our grants during fiscal 2009: 6.25 years expected life; expected stock volatility of 52.8%; risk-free interest rate of 2.5%; expected forfeitures of 5%; and expected dividend yield of 0% during the expected term.

The expected term of the awards was determined using the simplified method as stated in SEC Staff Accounting Bulletin No. 107 that utilizes the following formula: ((vesting term + original contract term)/2). Expected stock volatility was determined based on historical volatility for the 6.25 year-period preceding the measurement date. The risk-free rate was based on the yield curve in effect at the time options were granted, using U.S. treasury constant maturities over the expected life of the option. Expected forfeitures were determined based upon our expectations and past experiences. Expected dividend yield was based on our dividend policy at the time the options were granted. The following weighted-average assumptions were used to determine the fair value of options granted for the years ended June 25, 2009, June 26, 2008 and June 28, 2007:

	June 25, 2009	June 26, 2008	June 28, 2007
Average risk-free interest rate	2.5%	3.7%	4.6%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility	52.8%	54.3%	54.0%
Expected life (years)	6.3	6.3	5.8

Under the fair value recognition provisions of SFAS 123R, stock-based compensation is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Stock-based compensation expense was \$273, \$397 and \$411 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively, and the related tax benefit for non-qualified stock options was \$0, \$6 and \$24 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

Activity in our stock option plans were as follows:

	Shares	Weighted Average Exercise Price
Outstanding at June 29, 2006	324,815	\$13.70
Activity:		
Granted	76,000	10.25
Exercised	(11,250)	6.80
Forfeited	(35,875)	15.48
Outstanding at June 28, 2007	353,690	\$13.00
Activity:		
Granted	151,500	7.98
Exercised	(11,250)	6.40
Forfeited	(23,500)	13.98
Outstanding at June 26, 2008	470,440	\$11.49
Activity:		
Granted	1,500	5.88
Exercised	(6,000)	5.98
Forfeited	(84,000)	9.58
Outstanding at June 25, 2009	381,940	\$11.97

Exercisable at June 25, 2009	279,065	\$12.74
Exercisable at June 26, 2008	238,690	\$12.72
Exercisable at June 28, 2007	199,690	\$11.60

The number of stock options vested, and expected to vest in the future, as of June 25, 2009 is not significantly different from the number of stock options outstanding at June 25, 2009, as stated above. The weighted average fair value of options granted was \$3.09, \$4.47 and \$5.47 for the years ended June 25,

2009, June 26, 2008 and June 28, 2007, respectively. The total intrinsic value of all options exercised was \$0, \$16 and \$63 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. All 1,500 options granted during fiscal 2009 and 151,500 options granted during fiscal 2008 were at exercise prices equal to the market price of Common Stock at the grant date. Of the 76,000 total options granted during fiscal 2007, 14,000 were at exercise prices greater than the market price of the Common Stock at the grant date with a weighted average fair value of \$4.52 per share, and the remaining 62,000 options were at exercise prices equal to the market price of Common Stock at the grant date with a weighted average fair value of \$5.68 per share.

As of June 25, 2009, there was \$519 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under our stock option plans. We expect to recognize that cost over a weighted average period of 0.8 years. The total fair value of shares vested during fiscal 2009 was \$1,345.

Exercise prices for options outstanding as of June 25, 2009 ranged from \$3.44 to \$32.30. The weighted average remaining contractual life of those options is 5.0 years, and 4.1 years for those exercisable. The aggregate intrinsic value of stock based compensation awards at June 25, 2009 was \$437, \$92 for those exercisable. The options outstanding at June 25, 2009 may be segregated into two ranges, as is shown in the following:

	Option Price Per Share Range	
	\$3.44 - \$11.89	\$15.14 - \$32.30
Number of options	230,315	151,625
Weighted-average exercise price	\$ 7.94	\$ 18.11
Weighted-average remaining life (years)	5.6	4.0
Number of options exercisable	139,440	139,625
Weighted average exercise price for exercisable options	\$ 7.43	\$ 18.04

NOTE 9 EMPLOYEE BENEFIT PLANS

We maintain a contributory plan established pursuant to the provisions of section 401(k) of the Internal Revenue Code. The plan provides retirement benefits for all nonunion employees meeting minimum age and service requirements. We contribute 50% of the amount contributed by each employee up to certain maximums specified in the plan. Our contributions to the 401(k) plan were \$435, \$628 and \$655 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively.

We contributed \$204, \$324 and \$241 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively, to multi-employer pension plans. We are presently unable to determine our respective share of either accumulated plan benefits or net assets available for benefits under the multiemployer plans. During the first quarter of fiscal 2009, we recorded a long-term liability of \$868 for the withdrawal from the multiemployer plan for the step van drivers that were employed for our store-door delivery system that was discontinued during the third quarter of fiscal 2008. The long-term liability is \$837 as of June 25, 2009. As of June 26, 2008, we recorded a \$1,200 estimated liability for the withdrawal from the multiemployer plan for the step van drivers. The \$332 difference between the previously estimated liability and the actual liability was recorded as a reduction in restructuring expense. See Note 15.

NOTE 10 RETIREMENT PLAN

On August 2, 2007, the committee then known as the Compensation, Nominating and Corporate Governance Committee (the Committee) approved a restated Supplemental Employee Retirement Plan (SERP) for certain executive officers and key employees, retroactively effective as of August 25, 2005. The restated SERP retroactively changed the plan adopted on August 25, 2005 to, among other things, clarify certain actuarial provisions and incorporate new Internal Revenue Service requirements. The SERP is an unfunded, non-qualified benefit plan that will provide eligible participants with monthly benefits upon retirement, disability or death, subject to certain conditions. Benefits paid to retirees are based on age at retirement, years of credited service, and average compensation. We use our fiscal year-end as the measurement date for obligation and asset calculations. Effective June 28, 2007, we adopted the recognition and disclosure provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statement No. 87, 99, 106 and

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(SFAS 158), which required the recognition of the funded status of the SERP on the Consolidated Balance Sheet. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized are now required to be recorded as a component of Accumulated Other Comprehensive Loss (AOCL).

The following table presents the changes in the projected benefit obligation for the fiscal years ended:

	June 25, 2009	June 26, 2008
Change in projected benefit obligation		
Benefit obligation at beginning of year or plan inception	\$ 9,043	\$ 9,289
Service cost	138	138
Interest cost	562	575
Actuarial gain	(128)	(729)
Benefits paid	(866)	(230)
Projected benefit obligation at end of year	\$ 8,749	\$ 9,043

Components of the actuarial gain portion of the change in projected benefit obligation are presented below for the fiscal years ended:

	June 25, 2009	June 26, 2008	June 28, 2007
Actuarial Gain			
Change in bonus expectation	\$ 91	\$	\$ (453)
Change in discount rate	(399)	(267)	182
Adjustment to projected retiree benefit		(310)	(914)
Other	180	(152)	(345)
Actuarial gain	\$ (128)	\$ (729)	\$ (1,530)

The components of the net periodic pension cost are as follows for the fiscal years ended:

	June 25, 2009	June 26, 2008	June 28, 2007
Service cost	\$ 138	\$ 138	\$ 262
Interest cost	562	575	653
Recognized gain amortization	(324)	(359)	(306)
Prior service cost amortization	957	957	957
Net periodic pension cost	\$ 1,333	\$ 1,311	\$ 1,566

Significant assumptions related to our SERP include the discount rate used to calculate the actuarial present value of benefit obligations to be paid in the future and the average rate of compensation expense increase by SERP participants.

We used the following assumptions to calculate the benefit obligations of our SERP as follows for the years ended:

	June 25, 2009	June 26, 2008	June 28, 2007
Discount rate	6.90%	6.52%	6.27%
Rate of compensation increases	4.50%	4.50%	4.50%
Bonus payment	60% - 70% of base, paid 3 of 5 years	60% of base, paid 3 of 5 years	60% of base, paid 3 of 5 years

We used the following assumptions to calculate the net periodic costs of our SERP as follows for the years ended:

	June 25, 2009	June 26, 2008	June 28, 2007
Discount rate	6.52%	6.27%	6.44%
Rate of compensation increases	4.50%	4.50%	4.50%
Bonus payment	60% of base, paid 3 of 5 years	60% of base, paid 3 of 5 years	60% of base, paid annually

The assumed discount rate is based, in part, upon a discount rate modeling process that considers both high quality long-term indices and the duration of the SERP plan relative to the durations implicit in the broader indices. The discount rate is utilized principally in calculating the actuarial present value of our obligation and periodic expense pursuant to the SERP. To the extent the discount rate increases or decreases, our SERP obligation is decreased or increased, accordingly.

The following table presents the benefits expected to be paid in the next ten fiscal years:

Fiscal year	
2010	\$ 654
2011	652
2012	649
2013	644
2014	636
2015 - 2019	2,945

The following table presents the components of accumulated other comprehensive loss:

	June 25, 2009	June 26, 2008
Net gain	\$ 6,852	\$ 7,048
Prior service cost	(11,006)	(11,962)
Tax effect	1,454	1,720
Net amount recognized	\$ (2,700)	\$ (3,194)

We expect to recognize \$957 of the prior service cost offset by \$332 of the net gain in net periodic benefit cost for the year ending June 24, 2010.

NOTE 11 TRANSACTIONS WITH RELATED PARTIES

In addition to the related party transactions described in Notes 1 and 4, we also entered into transactions with the following related parties:

We purchase materials and manufacturing equipment from a company that is effectively owned by two members of our Board of Directors who are also executive officers and individuals directly related to them. Purchases from this related entity aggregated \$11,816, \$9,420 and \$9,772 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Accounts payable to this related entity aggregated \$664 and \$430 at June 25, 2009 and June 26, 2008, respectively.

We purchase materials from a company that is 50% owned by an individual related to a member of our Board of Directors. Material purchases from this related entity aggregated \$295, \$330 and \$784 for the years ended June 25, 2009, June 26, 2008 and June 28, 2007, respectively. Accounts payable to this related entity aggregated \$23 and \$19 at June 25, 2009 and June 26, 2008, respectively.

NOTE 12 DISTRIBUTION CHANNEL AND PRODUCT TYPE SALES MIX

We operate in a single reportable operating segment through which we sell various nut products through multiple distribution channels.

The following summarizes net sales by distribution channel for the fiscal years ended:

Distribution Channel	June 25, 2009	June 26, 2008	June 28, 2007
Consumer	\$ 317,097	\$ 294,021	\$ 276,890
Industrial	79,147	92,792	111,998
Food Service	64,657	68,132	61,763
Contract Packaging	55,753	47,441	45,003
Export	37,192	39,385	45,204
Total	\$ 553,846	\$ 541,771	\$ 540,858

The following summarizes sales by product type as a percentage of total gross sales. The information is based upon gross sales, rather than net sales, because certain adjustments, such as promotional discounts, are not allocable to product types.

Product Type	June 25, 2009	June 26, 2008	June 28, 2007
Peanuts	21.8%	20.1%	20.0%
Pecans	19.2	22.6	22.3
Cashews & Mixed Nuts	22.5	20.8	21.1
Walnuts	13.3	14.7	13.7
Almonds	11.3	11.9	13.3
Other	11.9	9.9	9.6
Total	100.0%	100.0%	100.0%

NOTE 13 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

The following table details the activity in various allowance and reserve accounts. Prior year amounts for the income tax valuation allowance are revised to reflect the state portion of the valuation allowance as net of the loss of the federal benefit when state net operating loss carryforwards are used in the future.

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
June 25, 2009				
Income tax valuation allowance	\$ 3,038	\$	\$ (3,038)	\$
Allowance for doubtful accounts	111	33	(6)	138
Reserve for cash discounts	310	6,780	(6,674)	416
Reserve for customer deductions	1,796	6,233	(5,818)	2,211
Total	\$ 5,255	\$ 13,046	\$ (15,536)	\$ 2,765
June 26, 2008				
Income tax valuation allowance	\$ 1,362	\$ 1,676	\$	\$ 3,038
Allowance for doubtful accounts	183	60	(132)	111
Reserve for cash discounts	225	6,065	(5,980)	310
Reserve for customer deductions	2,751	5,089	(6,044)	1,796
Total	\$ 4,521	\$ 12,890	\$ (12,156)	\$ 5,255
June 28, 2007				
Income tax valuation allowance	\$ 500	\$ 862	\$	\$ 1,362
Allowance for doubtful accounts	304	355	(476)	183
Reserve for cash discounts	280	5,591	(5,646)	225
Reserve for customer deductions	3,182	6,308	(6,739)	2,751
Total	\$ 4,266	\$ 13,116	\$ (12,861)	\$ 4,521

NOTE 14 INTEREST COST

The following is a breakout of interest cost for the years ended:

	June 25, 2009	June 26, 2008	June 28, 2007
Gross interest cost	\$ 7,646	\$ 10,502	\$ 10,248
Capitalized interest			(901)
Interest expense	\$ 7,646	\$ 10,502	\$ 9,347

NOTE 15 RESTRUCTURING AND RELATED CHARGES

On January 22, 2008 and February 1, 2008 we announced two separate restructuring initiatives to reduce operating costs by eliminating underperforming products and the number of employees required as a result of our facility

consolidation project, which we completed in August 2008. The initiatives focused on three primary areas:

Sales Profitability Review

We completed a sales profitability review and in connection therewith sales prices were increased to the extent feasible with respect to certain underperforming products. In addition, as part of this review, we discontinued approximately 1,200 products, which contributed to a decrease in our sales volume; however, absent other considerations and influences, our overall profitability is currently expected to increase for the near term. In order to achieve profitability for the long term we need to, among other things, achieve profitable volume growth. We reduced our total number of employees by approximately 80 as a result of these restructuring initiatives, which resulted in \$325 of one-time severance expense recorded in the third quarter of fiscal 2008, all of which was paid in fiscal 2008. We anticipate no further restructuring or related charges related to the sales profitability review initiative.

Elimination of Store-Door Delivery System

We previously distributed our products to approximately 300 convenience stores, supermarkets and other retail customer locations through a store-door delivery system. Under this system, we used a fleet of step-vans to market and distribute nuts, snacks and candy directly to retail customers on a store-by-store basis. Store-door delivery sales were \$2.5 million for calendar 2007 and have declined annually in recent years as fewer customers required this type of service. We ceased distributing products using the store-door delivery system on January 22, 2008. A majority of the store-door delivery system sales have migrated to our other distribution methods. In connection with the discontinuance of the store-door delivery system, we terminated nine employees. The store-door discontinuance required us to recognize a total estimated cost of \$1,400 during fiscal 2008, \$1,200 of which related to the estimated cost to withdraw from a multiemployer pension plan for the step-van drivers, \$30 of which related to severance for the unionized route drivers, \$133 of which related to accelerating depreciation for step-vans and \$37 of which related to the termination of step-van leases. The multiemployer obligation was reduced from \$1,200 to \$868 during the first quarter of fiscal 2009 when the final determination was received.

Facility Consolidation Project

In August 2008, we completed the consolidation of all our Chicago area facilities into the New Site. This consolidation has allowed us to eliminate redundant costs by being able to operate at a single facility. Due to the early completion of the consolidation, we ceased the use of the Arlington Heights facility before the lease termination date. As a result, we recorded a lease termination charge of \$173 during the second quarter of fiscal 2008.

Summary

The following restructuring expenses were incurred:

	Year Ended June 25, 2009	Year Ended June 26, 2008
Multiemployer pension withdrawal	\$ (332)	\$ 1,200
Severance		355
Lease termination		210
Total	\$ (332)	\$ 1,765

The total accrued as of June 26, 2008 was comprised of the following components:

Category	June 26, 2008
Multiemployer pension withdrawal	\$ 1,200
Lease termination	87
Total	\$ 1,287

There was no amount accrued for restructuring expenses as of June 25, 2009.

NOTE 16 PRODUCT RECALL

During the time period of March 31, 2009 through April 8, 2009, we voluntarily recalled roasted inshell pistachios, raw shelled pistachios and mixed nuts containing raw shelled pistachios. The recall was made as a precautionary measure because such products may be contaminated with salmonella. Our recall was a follow-up to the industry-wide voluntary recall of pistachios announced by Setton Pistachio of Terra Bella, Inc. (Setton), one of our pistachio suppliers. We do not currently anticipate any further recalls related to purchases of pistachios from Setton.

Our total costs associated with the recall are estimated to be approximately \$2.5 million. This total may be broken down as follows: (i) \$1.7 million reduction in sales for shipments to customers; (ii) \$0.3 million increase in cost of sales for recalled inventory in our possession; and (iii) \$0.5 million increase in administrative expenses for our customers' lost profits and other miscellaneous expenses. As of June 25, 2009, our remaining accrued liability for product recall is \$435.

We currently intend to aggressively pursue the recovery of our recall costs from Setton, Setton's insurance and our own insurance; however, we can provide no assurance as to the likelihood, extent (if any) or timing of any such recovery.

NOTE 17 SUPPLEMENTARY QUARTERLY DATA (Unaudited)

The following unaudited quarterly consolidated financial data are presented for fiscal 2009 and fiscal 2008. Quarterly financial results necessarily rely on estimates and caution is required in drawing specific conclusions from quarterly consolidated results.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended June 25, 2009:				
Net sales	\$ 134,824	\$ 177,755	\$ 113,789	\$ 127,478
Gross profit	14,184	24,546	13,211	20,458
Income (loss) from operations	1,920	9,061	(658)	5,258
Net (loss) income	(384)	5,839	(2,489)	3,951
Basic and diluted (loss) earnings per common share	\$ (0.04)	\$ 0.55	\$ (0.23)	\$ 0.37
Year Ended June 26, 2008:				
Net sales	\$ 132,808	\$ 176,990	\$ 106,716	\$ 125,257
Gross profit	11,800	23,337	12,838	18,258
(Loss) income from operations	(1,095)	6,666	130	4,970
Net (loss) income	(3,389)	3,517	(8,750)	2,665
Basic and diluted (loss) earnings per common share	\$ (0.32)	\$ 0.33	\$ (0.82)	\$ 0.25

The first quarter of fiscal 2009 contained \$0.3 million of reduction in restructuring expenses from the amount previously estimated. The third quarter of fiscal 2009 contained \$3.5 million of costs related to a product recall broken down as follows: (i) \$1.9 million reduction in sales; (ii) \$0.3 million increase in cost of sales; and (iii) \$1.3 million increase in administrative expenses. The fourth quarter of fiscal 2009 contained a \$1.0 million reduction in the previously estimated product recall costs broken down as follows: (i) \$0.2 million increase in net sales and (ii) \$0.8 million reduction in administrative expenses. The fourth quarter of fiscal 2009 also includes an adjustment to release the beginning of year valuation allowance that is dependent on future taxable income of approximately \$2.0 million (\$1.0 million was expected to be used based on fiscal 2009 ordinary income and was included in the expected tax rate through the third quarter of fiscal 2009).

The second quarter of fiscal 2008 contained \$1.4 million of restructuring expenses related primarily to the discontinuance of our store-door delivery system. The third quarter of fiscal 2008 contained \$6.7 million of debt extinguishment costs related to our refinancing. Also, the third quarter of fiscal 2008 contained \$0.4 million of restructuring, related primarily to severance due to job eliminations.

Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our CEO and CFO concluded that, as of June 25, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and reported to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of June 25, 2009, based on the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of June 25, 2009.

The effectiveness of our internal control over financial reporting as of June 25, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report contained in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter ended June 25, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that the Disclosure Controls or our Internal Control over Financial Reporting will prevent or detect all errors and all fraud. A control, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control's objectives will be met. Further, the design of a control must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal controls, no evaluation of controls can provide absolute assurance 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 control is based in part upon 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. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control, misstatements due to error or fraud may occur and may not be detected.

Item 9B Other Information

None.

PART III

Item 10 Directors and Executive Officers of the Registrant

The Sections entitled Nominees for Election by The Holders of Common Stock, Nominees for Election by The Holders of Class A Stock, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Board Meetings and Committees Audit Committee and Corporate Governance Independence of the Audit Committee of our Proxy Statement for the 2009 Annual Meeting and filed pursuant to Regulation 14A are incorporated herein by reference. Information relating to the executive officers of our company is included immediately before Part II of this Report.

We have adopted a Code of Ethics applicable to the principal executive, financial and accounting officers (Code of Ethics) and a separate Code of Conduct applicable to all employees and directors generally (Code of Conduct). The Code of Ethics and Code of Conduct are available on our website at www.jbssinc.com.

Item 11 Executive Compensation

The Sections entitled Compensation of Directors and Executive Officers, Compensation Discussion and Analysis, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report of our Proxy Statement for the 2009 Annual Meeting are incorporated herein by reference.

Item 12 Security Ownership of Certain Beneficial Owners and Management

The Section entitled Security Ownership of Certain Beneficial Owners and Management of our Proxy Statement for the 2009 Annual Meeting is incorporated herein by reference.

Item 13 Certain Relationships and Related Transactions, and Director Independence

The Sections entitled Corporate Governance Independence of the Board of Directors and Review of Related Party Transactions of our Proxy Statement for the 2009 Annual Meeting are incorporated herein by reference.

Item 14 Principal Accountant Fees and Services

The information under the proposal entitled Ratify Appointment of PricewaterhouseCoopers LLP as Independent Registered Public Accounting Firm of our Proxy Statement for the 2009 Annual Meeting is incorporated herein by reference.

PART IV

Item 15 Exhibits and Financial Statement Schedules

(a) (1) Financial Statements

The following financial statements are included in Part II, Item 8 Financial Statements and Supplementary Data :

<u>Report of Independent Registered Public Accounting Firm</u>	35
<u>Consolidated Statements of Operations for the Year Ended June 25, 2009, the Year Ended June 26, 2008 and the Year Ended June 28, 2007</u>	38
<u>Consolidated Balance Sheets as of June 25, 2009 and June 26, 2008</u>	36
<u>Consolidated Statements of Stockholders Equity for the Year Ended June 25, 2009, the Year Ended June 26, 2008 and the Year Ended June 28, 2007</u>	39
<u>Consolidated Statements of Cash Flows for the Year Ended June 25, 2009, the Year Ended June 26, 2008 and the Year Ended June 28, 2007</u>	40
<u>Notes to Consolidated Financial Statements</u>	41

(2) Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

(3) Exhibits

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit Index which follows the signature page and immediately precedes the exhibits filed.

(b) Exhibits

See Item 15(a)(3) above.

(c) Financial Statement Schedules

See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

JOHN B. SANFILIPPO & SON, INC.

Date: August 27, 2009

By: /s/ Jeffrey T. Sanfilippo
 Jeffrey T. Sanfilippo
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Jeffrey T. Sanfilippo Jeffrey T. Sanfilippo	Chief Executive Officer (Principal Executive Officer)	August 27, 2009
/s/ Michael J. Valentine Michael J. Valentine	Chief Financial Officer and Group President and Director (Principal Financial Officer)	August 27, 2009
/s/ Herbert J. Marros Herbert J. Marros	Director of Financial Reporting and Taxation (Principal Accounting Officer)	August 27, 2009
/s/ Jasper B. Sanfilippo Jasper B. Sanfilippo	Director	August 27, 2009
/s/ Mathias A. Valentine Mathias A. Valentine	Director	August 27, 2009
/s/ Jim Edgar Jim Edgar	Director	August 27, 2009
/s/ Timothy R. Donovan Timothy R. Donovan	Director	August 27, 2009
/s/ Jasper B. Sanfilippo, Jr. Jasper B. Sanfilippo, Jr.	Director	August 27, 2009
/s/ Daniel M. Wright	Director	August 27, 2009

Daniel M. Wright

JOHN B. SANFILIPPO & SON, INC.
EXHIBIT INDEX
(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description
1-2	Not applicable
3.1	Restated Certificate of Incorporation of Registrant ⁽¹⁹⁾
3.2	Amended and Restated Bylaws of Registrant ⁽¹⁸⁾
4.1	Specimen Common Stock Certificate ⁽³⁾
4.2	Specimen Class A Common Stock Certificate ⁽³⁾
5-9	Not applicable
10.1	Certain documents relating to \$8.0 million Decatur County-Bainbridge Industrial Development Authority Industrial Development Revenue Bonds (John B. Sanfilippo & Son, Inc. Project) Series 1987, dated as of June 1, 1987 ⁽¹⁾
10.2	Tax Indemnification Agreement between Registrant and certain Stockholders of Registrant prior to its initial public offering ⁽²⁾
10.3	Indemnification Agreement between Registrant and certain Stockholders of Registrant prior to its initial public offering ⁽²⁾
*10.4	The Registrant's 1998 Equity Incentive Plan ⁽⁴⁾
*10.5	First Amendment to the Registrant's 1998 Equity Incentive Plan ⁽⁵⁾
*10.6	Amended and Restated John B. Sanfilippo & Son, Inc. Split-Dollar Insurance Agreement Number One among John E. Sanfilippo, as trustee of the Jasper and Marian Sanfilippo Irrevocable Trust, dated September 23, 1990, Jasper B. Sanfilippo, Marian R. Sanfilippo and Registrant, dated December 31, 2003 ⁽⁶⁾
*10.7	Amended and Restated John B. Sanfilippo & Son, Inc. Split-Dollar Insurance Agreement Number Two among Michael J. Valentine, as trustee of the Valentine Life Insurance Trust, Mathias Valentine, Mary Valentine and Registrant, dated December 31, 2003 ⁽⁶⁾
*10.8	Amendment, dated February 12, 2004, to Amended and Restated John B. Sanfilippo & Son, Inc. Split-Dollar Insurance Agreement Number One among John E. Sanfilippo, as trustee of the Jasper and Marian Sanfilippo Irrevocable Trust, dated September 23, 1990, Jasper B. Sanfilippo, Marian R. Sanfilippo and Registrant, dated December 31, 2003 ⁽⁷⁾
*10.9	Amendment, dated February 12, 2004, to Amended and Restated John B. Sanfilippo & Son, Inc. Split-Dollar Insurance Agreement Number Two among Michael J. Valentine, as trustee of the Valentine Life Insurance Trust, Mathias Valentine, Mary Valentine and Registrant, dated December 31, 2003 ⁽⁷⁾

- 10.10 Development Agreement, dated as of May 26, 2004, by and between the City of Elgin, an Illinois municipal corporation, the Registrant, Arthur/Busse Limited Partnership, an Illinois limited partnership, and 300 East Touhy Avenue Limited Partnership, an Illinois limited partnership⁽⁸⁾
- 10.11 Agreement For Sale of Real Property, dated as of June 18, 2004, by and between the State of Illinois, acting by and through its Department of Central Management Services, and the City of Elgin⁽⁸⁾
- *10.12 The Registrant's Restated Supplemental Retirement Plan⁽¹⁵⁾
- *10.13 Form of Option Grant Agreement under 1998 Equity Incentive Plan⁽⁹⁾

Exhibit Number	Description
10.14	Termination Agreement, dated as of January 11, 2006, by and between the City of Elgin, an Illinois municipal corporation, the Registrant, Arthur/Busse Limited Partnership, an Illinois limited partnership, and 300 East Touhy Avenue Limited Partnership, an Illinois limited partnership ⁽¹⁰⁾
10.15	Assignment and Assumption Agreement, dated March 28, 2006, by and between JBSS Properties, LLC and the City of Elgin, Illinois ⁽¹¹⁾
10.16	Agreement of Purchase and Sale between the Company and Prologis ⁽¹²⁾
10.17	Lease Agreement between the Company, as Tenant, and Palmtree Acquisition Corporation, as Landlord for property at 3001 Malmo Drive, Arlington Heights, Illinois ⁽¹³⁾
10.18	Lease Agreement between the Company, as Tenant, and Palmtree Acquisition Corporation, as Landlord for property at 1851 Arthur Avenue, Elk Grove Village, Illinois ⁽¹³⁾
10.19	Agreement for Purchase of Real Estate and Related Property by and among the Company, as Seller, and Arthur/Busse Limited Partnership and 300 East Touhy Limited Partnership, as Purchasers ⁽¹⁴⁾
10.20	Industrial Building Lease by and between the Company, as Tenant, and Arthur/Busse Limited Partnership and 300 East Touhy Limited Partnership, as Landlord, dated September 20, 2006 ⁽¹⁴⁾
*10.21	Sanfilippo Value Added Plan, dated October 24, 2007 ⁽¹⁶⁾
10.22	Credit Agreement, dated as of February 7, 2008, by and among the Company, the financial institutions named therein as lenders, Wells Fargo Foothill, LLC (WFF), as the arranger and administrative agent for the lenders, and Wachovia Capital Finance Corporation (Central), in its capacity as documentation agent ⁽¹⁷⁾
10.23	Security Agreement, dated as of February 7, 2008, by the Company in favor of WFF, as administrative agent for the lenders ⁽¹⁷⁾
10.24	Loan Agreement, dated as of February 7, 2008, by and between the Company and Transamerica Financial Life Insurance Company (TFLIC ⁽¹⁷⁾)
10.25	Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of February 7, 2008, made by the Company related to its Elgin, Illinois property for the benefit of TFLIC ⁽¹⁷⁾
10.26	Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of February 7, 2008, made by JBSS Properties LLC related to its Elgin, Illinois property for the benefit of TFLIC ⁽¹⁷⁾
10.27	Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of February 7, 2008, made by the Company related to its Gustine, California property for the benefit of TFLIC ⁽¹⁷⁾

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- 10.28 Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of February 7, 2008, made by the Company related to its Garysburg, North Carolina property for the benefit of TFLIC⁽¹⁷⁾
- 10.29 Promissory Note (Tranche A), dated February 7, 2008, in the principal amount of \$36.0 million executed by the Company in favor of TFLIC⁽¹⁷⁾
- 10.30 Promissory Note (Tranche B) dated February 7, 2008, in the principal amount of \$9.0 million executed by the Company in favor of TFLIC⁽¹⁷⁾
- *10.31 First Amendment to the Registrant's 2008 Equity Incentive Plan⁽³⁰⁾
- *10.32 The Registrant's 2008 Equity Incentive Plan, as amended⁽³⁰⁾
- *10.33 The Registrant's Employee Restricted Stock Unit Award Agreement⁽³¹⁾

Exhibit Number	Description
*10.34	The Registrant's Non-Employee Director Restricted Stock Unit Award Agreement ⁽¹⁾
*10.35	Form of Indemnification Agreement ⁽²⁾
11-20	Not applicable
21	Subsidiaries of the Registrant, filed herewith
22	Not applicable
23	Consent of PricewaterhouseCoopers LLP, filed herewith
24 -30	Not applicable
31.1	Certification of Jeffrey T. Sanfilippo pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended, filed herewith
31.2	Certification of Michael J. Valentine pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended, filed herewith
32.1	Certification of Jeffrey T. Sanfilippo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
32.2	Certification of Michael J. Valentine pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith
33-100	Not applicable

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1, Registration No. 33-43353, as filed with the Commission on October 15, 1991 (Commission File No. 0-19681).

(2)

Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1991 (Commission File No. 0-19681).

- (3) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Amendment No. 3), Registration No. 33-43353, as filed with the Commission on November 25, 1991 (Commission File No. 0-19681).

- (4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the first quarter ended September 24, 1998 (Commission File No. 0-19681).

- (5) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the

second quarter
ended
December 28,
2000
(Commission
File
No. 0-19681).

(6) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the
second quarter
ended
December 25,
2003
(Commission
File
No. 0-19681).

(7) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the
third quarter
ended
March 25, 2004
(Commission
File
No. 0-19681).

(8) Incorporated by
reference to the
Registrant's
Annual Report
on Form 10-K
for the fiscal
year ended
June 24, 2004
(Commission
File
No. 0-19681).

(9) Incorporated by
reference to the
Registrant's
Annual Report

on Form 10-K
for the fiscal
year ended
June 30, 2005
(Commission
File
No. 0-19681).

- (10) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the
second quarter
ended
December 29,
2005
(Commission
File
No. 0-19681).

- (11) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 28, 2006 (Commission File No. 0-19681).
- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 11, 2006 (Commission File No. 0-19681).
- (13) Incorporated by reference to the Registrant's Current Report on Form 8-K dated July 14, 2006 (Commission File No. 0-19681).
- (14) Incorporated by reference to the Registrant's Current Report on Form 8-K dated September 20, 2006 (Commission File No. 0-19681).
- (15) Incorporated by reference to the Registrant's Annual Report

on Form 10-K
for the year
ended June 28,
2007
(Commission
File
No. 0-19681).

(16) Incorporated by
reference to the
Registrant's
Current Report
on Form 8-K
dated October
24, 2007
(Commission
File
No. 0-19681).

(17) Incorporated by
reference to the
Registrant's
Current Report
on Form 8-K
dated
February 7,
2008
(Commission
File
No. 0-19681).

(18) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the
first quarter
ended
September 27,
2007
(Commission
File
No. 0-19681).

(19) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the

third quarter
ended
March 24, 2005
(Commission
File
No. 0-19681).

(20) Incorporated by
reference to the
Registrant's
Quarterly
Report on Form
10-Q for the
second quarter
ended
December 25,
2008
(Commission
File
No. 0-19681).

(21) Incorporated by
reference to the
Registrant's
Current Report
on Form 8-K
dated
November 13,
2008
(Commission
File
No. 0-19681).

(22) Incorporated by
reference to the
Registrant's
Current Report
on Form 8-K
dated April 29,
2009
(Commission
File
No. 0-19681).

* Indicates a
management
contract or
compensatory
plan or
arrangement
required to be

filed as an
exhibit to this
Form 10-K
pursuant to
Item 14(c).

69

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131.5

160.0

Total assets

324.9

350.5

311.2

312.6

341.8

Long-term debt, excluding current portion

177.5

211.3

253.1

274.0

322.7

(a) During 2011, we concluded that it is more likely than not that certain of our deferred tax assets will be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of \$89.1 million.

The fiscal year ended December 31, 2008 includes 53 weeks of operations as compared with 52 weeks for all other (b) years presented. We estimate that the additional, or 53rd, week added approximately \$14.3 million of operating revenue in 2008.

Prior to the 2010 refinancing of our credit facility and repurchase and redemption of our public debt securities, (c) distributions and dividends on Denny's Corporation's common equity securities were prohibited. Our current credit facility allows for the payment of cash dividends and/or the purchase of Common Stock subject to certain limitations. See Part II Item 5.

A negative working capital position is not unusual for a restaurant operating company. The decrease in working (d) capital deficit from December 31, 2008 to December 26, 2012 is primarily due to the sale of company restaurants to franchisees from 2007 through 2011.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with "Selected Financial Data," and our Consolidated Financial Statements and the notes thereto.

Overview

Denny's Corporation is one of America's largest family-style restaurant chains. Our fiscal year ends on the Wednesday in December closest to December 31 of each year. As a result, a fifty-third week is added to a fiscal year every five or six years. 2012, 2011 and 2010 each included 52 weeks of operations. Our revenues are derived primarily from two sources: the sale of food and beverages at our company restaurants and the collection of royalties and fees from restaurants operated by our franchisees under the Denny's name. Sales and customer traffic at both company-operated and franchised restaurants are affected by the success of our marketing campaigns, new product introductions and customer service, menu pricing, as well as external factors including competition, economic conditions affecting consumer spending and changes in guest tastes and preferences. Sales at company restaurants and royalty income from franchise restaurants are also impacted by the opening of new restaurants, the closing of existing restaurants and the sale of company restaurants to franchisees.

Our operating costs are exposed to volatility in two main areas: product costs and payroll and benefit costs. Many of the products sold in our restaurants are affected by commodity pricing and are, therefore, subject to price volatility. This volatility is caused by factors that are fundamentally outside of our control and are often unpredictable. In general, we purchase food products based on market prices or we set firm prices in purchase agreements with our vendors. Our ability to lock in prices on certain key commodities is imperative to control food costs in an environment in which many commodity prices are on the rise. In addition, our continued success with menu management helps us to offer menu items that provide a compelling value to our customers while maintaining consistent product costs and appropriate profitability. The volatility of payroll and benefit costs results primarily from changes in wage rates and increases in labor related expenses, such as medical benefit costs and workers' compensation costs. A number of our employees are paid the minimum wage. Accordingly, substantial increases in the minimum wage increase our labor costs. Additionally, changes in guest counts and investments in store-level labor impact payroll and benefit costs as a percentage of sales.

During 2012, we completed FGI, a strategic initiative to increase franchise restaurant development through the sale of certain geographic clusters of company restaurants to both current and new franchisees. In 2012, as a result of our FGI, we sold 36 restaurant operations to franchisees. As of December 26, 2012, we have sold 380 company restaurants since our FGI program began in early 2007. While we now consider the FGI program to be complete, we may, from time to time, continue to sell restaurants to franchisees where geographically and economically beneficial to the company.

Additionally, we have negotiated development agreements for 257 new domestic restaurants, 133 of which have opened. The majority of the remaining restaurants in the development agreement pipeline are expected to open over the next five years. While the majority of the restaurants to be opened under these agreements are on schedule, from time to time some of our franchisees' ability to grow and meet their development commitments is hampered by the economy and the difficult lending environment.

As a result of the development efforts described above, over the past five years we have transitioned from a restaurant portfolio mix of 66% franchised and 34% company-operated to a restaurant portfolio mix of 90% franchised and 10% company-operated at December 26, 2012. Now that we have achieved our mix target, we expect that our percentage of company-operated restaurants will gradually decrease, as the majority of our future unit growth will be through franchised restaurants.

Specifically, our focus on FGI has impacted our financial performance as follows:

• Company restaurant sales have decreased from \$423.9 million in 2010 to \$353.7 million in 2012, primarily as a result of the sale of restaurants to franchisees.

• The decline in company restaurant revenues is partially offset by increased royalty income derived from the growth in the franchise restaurant base resulting from both traditional development and the conversion of restaurants. As a result, royalty income, which is included as a component of franchise and license revenue, has increased from \$73.0 million in 2010 to \$83.8 million in 2012.

• The resulting net reduction in total revenue related to our FGI is generally recovered by the benefits of a lower cost structure related to franchise and license revenues, a decrease in depreciation and amortization due to the sale of restaurant related assets to franchisees (from \$29.6 million in 2010 to \$22.3 million in 2012) and a reduction in interest expense resulting from the use of proceeds to reduce debt (from \$25.8 million in 2010 to \$13.4 million in 2012). See also "Debt and Refinancing and Reductions" below.

• Initial franchise fees, included as a component of franchise and license revenue, are generally recognized in the period in which a restaurant is sold to a franchisee or when a new unit is opened. These initial fees are completely dependent on the number of restaurants sold to or opened by franchisees during a particular period and, as a result, can cause fluctuations in our total franchise and license revenue from year to year.

• Occupancy revenues, also included as a component of franchise and license revenue, result from leasing or subleasing restaurants to franchisees. As a result of our FGI, occupancy revenues have increased from \$44.8 million in 2010 to

\$47.8 million in 2012. Additionally, when restaurants are sold and leased or subleased to franchisees, the occupancy costs related to these restaurants moves from costs of company restaurant sales to costs of franchise and license revenue to match the related occupancy revenue. As subleases with franchisees end over time, franchise occupancy revenue and costs could decrease if franchisees enter into direct leases with landlords.

Gains on sales of assets are primarily dependent on the number of restaurants sold to franchisees during a particular period, and as a result, can cause fluctuations in net income from year to year. With the completion of our FGI, gains on sales of assets are expected to decrease.

Debt Refinancing and Reductions

Interest expense has a significant impact on our net income as a result of our indebtedness. However, over the past several years, we have continued to reduce interest expense through a series of debt refinancings and repayments using the proceeds generated from our FGI transactions, sales of real estate and cash flow from operations. These repayments resulted in an overall debt reduction of approximately \$15 million during 2010, \$42 million in 2011 and \$28 million in 2012.

During the second quarter of 2012, we refinanced our credit facility (the "New Credit Facility") principally to take advantage of lower interest rates available in the senior secured debt market. Borrowings for the new term loan bear a tiered interest rate based on the company's consolidated leverage ratio and was initially set at LIBOR plus 300 basis points. The New Credit Facility does not contain an interest rate floor for either the term loan or the revolver. It includes an accordion feature that would allow us to increase the size of the facility to \$300 million. A commitment fee of 50 basis points is paid on the unused portion of the revolving credit facility. In accordance with the debt covenants, the reduction in term loan debt resulted in a decrease in the interest rate and the commitment fee. The interest rate is currently set at LIBOR plus 275 basis points and the commitment fee was reduced to 37.5 basis points. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Credit Facility."

The combination of lower debt balances and lower overall interest rates on our debt should continue to positively benefit our financial performance on an ongoing basis.

Share Repurchases

Our credit facility permits the payment of cash dividends and/or the purchase of Denny's stock subject to certain limitations. During 2012, we repurchased 4.8 million shares of Common Stock for \$22.2 million. As of December 26, 2012, there are 3.5 million shares remaining to be repurchased under the current repurchase program. For more information see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Dividends and Share Repurchases." Repurchased shares are included as treasury stock in the Consolidated Balance Sheets and the Consolidated Statements of Shareholders' Deficit.

Statements of Income

	Fiscal Year Ended								
	December 26, 2012			December 28, 2011			December 29, 2010		
	(Dollars in thousands)								
Revenue:									
Company restaurant sales	\$353,710	72.4	%	\$411,595	76.4	%	\$423,936	77.3	%
Franchise and license revenue	134,653	27.6	%	126,939	23.6	%	124,530	22.7	%
Total operating revenue	488,363	100.0	%	538,534	100.0	%	548,466	100.0	%
Costs of company restaurant sales (a):									
Product costs	88,473	25.0	%	101,796	24.7	%	101,470	23.9	%
Payroll and benefits	141,303	39.9	%	167,574	40.7	%	172,533	40.7	%
Occupancy	23,405	6.6	%	27,372	6.7	%	27,967	6.6	%
Other operating expenses	49,025	13.9	%	61,017	14.8	%	64,029	15.1	%
Total costs of company restaurant sales	302,206	85.4	%	357,759	86.9	%	365,999	86.3	%
Costs of franchise and license revenue (a)									
General and administrative expenses	60,307	12.3	%	55,352	10.3	%	55,619	10.1	%
Depreciation and amortization	22,304	4.6	%	27,979	5.2	%	29,637	5.4	%
Operating (gains), losses and other charges, net	482	0.1	%	2,102	0.4	%	(4,944)	(0.9)	%
Total operating costs and expenses, net	431,974	88.5	%	487,560	90.5	%	493,298	89.9	%
Operating income	56,389	11.5	%	50,974	9.5	%	55,168	10.1	%
Interest expense, net	13,369	2.7	%	20,040	3.7	%	25,792	4.7	%
Other nonoperating expense, net	7,926	1.6	%	2,607	0.5	%	5,282	1.0	%
Net income before income taxes	35,094	7.2	%	28,327	5.3	%	24,094	4.4	%
Provision for (benefit from) income taxes	12,785	2.6	%	(83,960)	(15.6)	%	1,381	0.3	%
Net income	\$22,309	4.6	%	\$112,287	20.9	%	\$22,713	4.1	%
Other Data:									
Company average unit sales	\$1,936			\$1,838			\$1,813		
Franchise average unit sales	\$1,410			\$1,385			\$1,361		
Company equivalent units (b)	183			224			234		
Franchise equivalent units (b)	1,501			1,447			1,349		
Company same-store sales increase (decrease) (c)(d)	0.2	%		0.8	%		(3.6)	%	
Guest check average increase (decrease) (d)	1.8	%		0.6	%		(1.7)	%	
Guest count increase (decrease) (d)	(1.6)	%		0.2	%		(1.9)	%	
Franchised and licensed same-store sales increase (decrease) (c)(d)	1.5	%		0.7	%		(3.7)	%	

Costs of company restaurant sales percentages are as a percentage of company restaurant sales. Costs of franchise (a) and license revenue percentages are as a percentage of franchise and license revenue. All other percentages are as a percentage of total operating revenue.

(b) Equivalent units are calculated as the weighted-average number of units outstanding during the defined time period.

(c) Same-store sales include sales from restaurants that were open the same period in the prior year.

(d) Prior year amounts have not been restated for 2012 comparable units.

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2012 Compared with 2011

Unit Activity

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
Company restaurants, beginning of period	206	232
Units opened	1	8
Units acquired from franchisees	1	—
Units sold to franchisees	(36	) (30
Units closed	(8	) (4
End of period	164	206
Franchised and licensed restaurants, beginning of period	1,479	1,426
Units opened	39	53
Units relocated	2	1
Units purchased from Company	36	30
Units acquired by Company	(1) —
Units closed (including units relocated)	(31	) (31
End of period	1,524	1,479
Total restaurants, end of period	1,688	1,685

Company Restaurant Operations

During the year ended December 26, 2012, we realized a 0.2% increase in same-store sales, comprised of a 1.8% increase in guest check average, partially offset by a 1.6% decrease in guest counts. Company restaurant sales decreased \$57.9 million, or 14.1%, primarily resulting from a 41 equivalent-unit decrease in company restaurants. The decrease in equivalent-units primarily resulted from the sale of company restaurants to franchisees.

Total costs of company restaurant sales as a percentage of company restaurant sales decreased to 85.4% from 86.9%. Product costs increased to 25.0% from 24.7% primarily due to the impact of increased commodity costs. Payroll and benefits decreased to 39.9% from 40.7% primarily due to improved labor efficiency. Occupancy costs decreased slightly to 6.6% from 6.7%. Other operating expenses were comprised of the following amounts and percentages of company restaurant sales:

	Fiscal Year Ended		December 28, 2011		
	December 26, 2012				
	(Dollars in thousands)				
Utilities	\$14,358	4.1	% \$18,051	4.4	%
Repairs and maintenance	6,259	1.8	% 7,207	1.8	%
Marketing	13,397	3.8	% 16,052	3.9	%
Legal	682	0.2	% 831	0.2	%
Other direct costs	14,329	4.1	% 18,876	4.6	%
Other operating expenses	\$49,025	13.9	% \$61,017	14.8	%

Utilities decreased 0.3 percentage points primarily due to lower natural gas rates in 2012. Other direct costs decreased 0.5 percentage points primarily as a result of higher new store opening expenses in the prior period.

Franchise Operations

Franchise and license revenue and costs of franchise and license revenue were comprised of the following amounts and percentages of franchise and license revenue for the periods indicated:

	Fiscal Year Ended					
	December 26, 2012		December 28, 2011			
	(Dollars in thousands)					
Royalties	\$83,774	62.2	%	\$79,221	62.4	%
Initial fees	3,092	2.3	%	3,197	2.5	%
Occupancy revenue	47,787	35.5	%	44,521	35.1	%
Franchise and license revenue	\$134,653	100.0	%	\$126,939	100.0	%
Occupancy costs	35,401	26.3	%	33,622	26.5	%
Other direct costs	11,274	8.4	%	10,746	8.5	%
Costs of franchise and license revenue	\$46,675	34.7	%	\$44,368	35.0	%

Royalties increased by \$4.6 million, or 5.7%, primarily resulting from a 54 equivalent unit increase in franchised and licensed restaurants and a 1.5% increase in same-store sales, as compared with the prior year. The increase in equivalent units primarily resulted from the sale of company restaurants to franchisees. Initial fees decreased by \$0.1 million, or 3.3%. The decrease in initial fees resulted from the higher number of restaurants opened by franchisees during the prior year period, partially offset by the higher number of restaurants sold to franchisees during the current year period. The increase in occupancy revenue of \$3.3 million, or 7.3%, is primarily the result of the sale of restaurants to franchisees over the last two years.

Costs of franchise and license revenue increased by \$2.3 million, or 5.2%. The increase in occupancy costs of \$1.8 million, or 5.3%, is primarily the result of the sale of restaurants to franchisees. Other direct costs increased by \$0.5 million, or 4.9%, primarily as a result of increases in headcount and payroll and benefits, including performance-based compensation, partially offset by a \$0.5 million franchisee settlement recorded during the prior year period. As a result, costs of franchise and license revenue as a percentage of franchise and license revenue decreased to 34.7% for the year ended December 26, 2012 from 35.0% for the year ended December 28, 2011.

Other Operating Costs and Expenses

Other operating costs and expenses such as general and administrative expenses and depreciation and amortization expense relate to both company and franchise operations.

General and administrative expenses are comprised of the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Share-based compensation	\$3,496	\$4,219
Other general and administrative expenses	56,811	51,133
Total general and administrative expenses	\$60,307	\$55,352

The \$5.0 million increase in general and administrative expenses is primarily the result of an increase in performance-based compensation.

Depreciation and amortization is comprised of the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Depreciation of property and equipment	\$15,819	\$20,613
Amortization of capital lease assets	3,282	3,133
Amortization of intangible assets	3,203	4,233
Total depreciation and amortization expense	\$22,304	\$27,979

The overall decrease in depreciation and amortization expense is due primarily to the sale of company restaurants to franchisees during fiscal 2011 and 2012.

Operating (gains), losses and other charges, net are comprised of the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Gains on sales of assets and other, net	\$(7,090)	\$(3,187)
Restructuring charges and exit costs	3,912	1,234
Impairment charges	3,660	4,055
Operating (gains), losses and other charges, net	\$482	\$2,102

During the year ended December 26, 2012, we recognized gains of \$7.1 million, primarily resulting from the sale of restaurant operations to franchisees. During the year ended December 28, 2011, we recognized gains of \$3.2 million, primarily resulting from the sale of restaurant operations to franchisees, the sale of real estate and the recognition of deferred gains related to a restaurant sold to a franchisee during a prior period.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Exit costs	\$1,926	\$848
Severance and other restructuring charges	1,986	386
Total restructuring and exit costs	\$3,912	\$1,234

Severance and other restructuring charges for the year ended December 26, 2012 includes charges related to the departure of the company's former Chief Operating Officer.

Impairment charges of \$3.7 million for the year ended December 26, 2012 resulted primarily from the impairment of seven restaurants identified as held for sale and the impairment of an underperforming unit. Impairment charges of \$4.1 million for the year ended December 28, 2011 resulted primarily from the impairment of three underperforming restaurants and two restaurants identified as assets held for sale.

Operating income was \$56.4 million for the year ended December 26, 2012 and \$51.0 million for the year ended December 28, 2011.

Interest expense, net is comprised of the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Interest on credit facilities	\$7,074	\$12,444
Interest on capital lease liabilities	3,580	3,908
Letters of credit and other fees	1,539	1,959
Interest income	(640	) (1,292
Total cash interest	11,553	17,019
Amortization of deferred financing costs	775	1,374
Amortization of debt discount	137	547
Interest accretion on other liabilities	904	1,100
Total interest expense, net	\$13,369	\$20,040

The decrease in interest expense resulted from a decrease in interest rates related to the 2012 refinancing of our credit facility, as well as debt reductions during 2011 and 2012.

Other nonoperating expense, net was \$7.9 million for the year ended December 26, 2012 compared with \$2.6 million for the year ended December 28, 2011. The \$5.3 million change was primarily the result of \$7.9 million of expenses and write-offs of deferred financing costs and original issue discount related to our 2012 debt refinancing, partially offset by the recognition of \$1.4 million of costs related to the 2011 debt re-pricing in the prior year period.

The provision for income taxes was \$12.8 million for the year ended December 26, 2012 compared with a benefit of \$84.0 million for the year ended December 28, 2011. For the 2012 period, the difference in the overall effective tax rate from the U.S. statutory rate was due to discrete tax items, including a \$1.7 million out-of-period adjustment related to the reversal of a portion of the income tax benefit recorded in fourth quarter of 2011. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends. In addition, a \$1.6 million tax benefit was recorded in 2012 relating to additional state credits generated during 2012 from prior years' activity. For the 2011 period, we concluded that it was more likely than not that certain of our deferred tax assets will be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of \$89.1 million.

Net income was \$22.3 million for the year ended December 26, 2012 compared with \$112.3 million for the year ended December 28, 2011 due to the factors noted above.

2011 Compared with 2010

Unit Activity

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
Company restaurants, beginning of period	232	233
Units opened	8	24
Units relocated	—	1
Units sold to franchisees	(30	) (24
Units closed (including units relocated)	(4	) (2
End of period	206	232
Franchised and licensed restaurants, beginning of period	1,426	1,318
Units opened	53	112
Units relocated	1	4
Units purchased from Company	30	24
Units closed (including units relocated)	(31	) (32
End of period	1,479	1,426
Total restaurants, end of period	1,685	1,658

Company Restaurant Operations

During the year ended December 28, 2011, we realized a 0.8% increase in same-store sales, comprised of a 0.6% increase in guest check average and a 0.2% increase in guest counts. Company restaurant sales decreased \$12.3 million, or 2.9%, primarily resulting from a ten equivalent unit decrease in company restaurants, partially offset by the increase in same-store sales for the year. The decrease in equivalent units resulted from the sale of company restaurants to franchisees.

Total costs of company restaurant sales as a percentage of company restaurant sales increased to 86.9% from 86.3%. Product costs increased to 24.7% from 23.9% primarily due to the impact of increased commodity costs. Payroll and benefits costs remained flat at 40.7% as improved scheduling of restaurant staff was offset by unfavorable workers' compensation claims development and higher incentive compensation. Occupancy costs increased slightly to 6.7% from 6.6%. Other operating expenses were comprised of the following amounts and percentages of company restaurant sales:

	Fiscal Year Ended		December 29, 2010		
	December 28, 2011	(Dollars in thousands)			
Utilities	\$18,051	4.4	% \$18,221	4.3	%
Repairs and maintenance	7,207	1.8	% 7,428	1.8	%
Marketing	16,052	3.9	% 17,376	4.1	%
Legal settlement costs	831	0.2	% 446	0.1	%
Other direct costs	18,876	4.6	% 20,558	4.8	%
Other operating expenses	\$61,017	14.8	% \$64,029	15.1	%

Marketing decreased 0.2 percentage points primarily as a result of additional corporate investment in media in the prior year period.

Franchise Operations

Franchise and license revenue and costs of franchise and license revenue were comprised of the following amounts and percentages of franchise and license revenue for the periods indicated:

	Fiscal Year Ended		December 29, 2010		
	December 28, 2011				
	(Dollars in thousands)				
Royalties	\$79,221	62.4	% \$73,034	58.6	%
Initial and other fees	3,197	2.5	% 6,721	5.4	%
Occupancy revenue	44,521	35.1	% 44,775	36.0	%
Franchise and license revenue	126,939	100.0	% 124,530	100.0	%
Occupancy costs	33,622	26.5	% 34,373	27.6	%
Other direct costs	10,746	8.5	% 12,614	10.1	%
Costs of franchise and license revenue	\$44,368	35.0	% \$46,987	37.7	%

Royalties increased by \$6.2 million, or 8.5%, primarily resulting from the effects of a 98 equivalent unit increase in franchised and licensed restaurants, as compared with the prior year, and a 0.7% increase in same-store sales. The increase in equivalent units primarily resulted from the conversion of restaurants at Pilot Flying J Travel Centers during 2010 and 2011. Initial fees decreased by \$3.5 million, or 52.4%. The decrease in initial fees resulted from the higher number of restaurants opened by franchisees during the prior year period. The decrease in occupancy revenue of \$0.3 million, or 0.6%, is primarily the result of lease expirations and terminations where the franchisees obtained their own leases with the landlords and we are no longer party to the leases.

Costs of franchise and license revenue decreased by \$2.6 million, or 5.6%. The decrease in occupancy costs of \$0.8 million, or 2.2%, is primarily the result of lease expirations and terminations as described above. Other direct costs decreased by \$1.9 million, or 14.8%, primarily resulting from lower opening and training costs related to the higher number of openings by franchisees in the prior year period and the franchise-related costs associated with our Super Bowl promotion in the prior year, partially offset by a \$0.5 million franchisee settlement. As a result, costs of franchise and license revenue as a percentage of franchise and license revenue decreased to 35.0% for the year ended December 28, 2011 from 37.7% for the year ended December 29, 2010.

Other Operating Costs and Expenses

Other operating costs and expenses such as general and administrative expenses and depreciation and amortization expense relate to both company and franchise operations.

General and administrative expenses were comprised of the following:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
	(In thousands)	
Share-based compensation	\$4,219	\$2,840
General and administrative expenses	51,133	52,779
Total general and administrative expenses	\$55,352	\$55,619

The \$1.4 million increase in share-based compensation expense is primarily due to the issuance of employment inducement awards to certain employees and reductions in the prior year related to forfeitures. Other general and

administrative expenses decreased \$1.6 million. This decrease is primarily the result of \$2.0 million in proxy contest costs incurred during 2010 and a decrease in deferred compensation. These decreases were partially offset by an increase in performance-based compensation and an increase in headcount, including executive positions that were vacant in the prior year period.

Depreciation and amortization was comprised of the following:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
	(In thousands)	
Depreciation of property and equipment	\$20,613	\$21,716
Amortization of capital lease assets	3,133	2,814
Amortization of intangible assets	4,233	5,107
Total depreciation and amortization	\$27,979	\$29,637

The overall decrease in depreciation and amortization expense was primarily due to the sale of company restaurants to franchisees during 2010 and 2011.

Operating (gains), losses and other charges, net were comprised of the following:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
	(In thousands)	
Gains on sales of assets and other, net	\$ (3,187	) \$ (9,481
Restructuring charges and exit costs	1,234	4,162
Impairment charges	4,055	375
Operating (gains), losses and other charges, net	\$2,102	\$(4,944)

During the year ended December 28, 2011, we recognized gains of \$3.2 million, primarily resulting from the sale of 30 restaurant operations to nine franchisees, the sale of real estate and the recognition of deferred gains related to a restaurant sold to a franchisee during a prior period. During the year ended December 29, 2010, we recognized gains of \$9.5 million, primarily resulting from the sale of real estate to franchisees and the sale of 24 restaurant operations to 14 franchisees.

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
	(In thousands)	
Exit costs	\$848	\$1,247
Severance and other restructuring charges	386	2,915
Total restructuring and exit costs	\$1,234	\$4,162

Severance and other restructuring charges for the year ended December 29, 2010 included \$2.3 million related to the departure of the Company's former Chief Executive Officer.

Impairment charges of \$4.1 million for the year ended December 28, 2011 resulted primarily from the impairment of assets of three underperforming restaurants and two restaurants identified as assets held for sale. Impairment charges for the year ended December 29, 2010 generally related to underperforming or closed restaurants as well as restaurants and real estate identified as held for sale during the period.

Operating income was \$51.0 million during 2011 compared with \$55.2 million during 2010.

Interest expense, net was comprised of the following:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
	(In thousands)	
Interest on credit facilities	\$12,444	\$5,406
Interest on senior notes	—	13,565
Interest on capital lease liabilities	3,908	3,911
Letters of credit and other fees	1,959	1,703
Interest income	(1,292	) (1,480
Total cash interest	17,019	23,105
Amortization of deferred financing costs	1,374	1,045
Amortization of debt discount	547	160
Interest accretion on other liabilities	1,100	1,482
Total interest expense, net	\$20,040	\$25,792

The decrease in interest expense resulted from a decrease in interest rates related to the 2010 refinancing and 2011 re-pricing of our credit facility, as well as debt reductions during both years.

Other nonoperating expense, net was \$2.6 million for the year ended December 28, 2011 compared with \$5.3 million for the year ended December 29, 2010. The expense for 2011 consisted primarily of a \$1.4 million loss on early extinguishment of debt related to our debt re-pricing and a \$1.3 million loss on early extinguishment of debt related to prepayments made during the year. The expense for 2010 consisted primarily of a \$4.5 million loss on early extinguishment of debt related to the 2010 debt refinancing.

The benefit from income taxes was \$84.0 million for the year ended December 28, 2011 compared with a provision of \$1.4 million for the year ended December 29, 2010. In the fourth quarter of 2011, we concluded that it was more likely than not that certain of our deferred tax assets will be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of \$89.1 million. At December 28, 2011, the remaining valuation allowance was approximately \$22.7 million.

Net income was \$112.3 million for the year ended December 28, 2011 compared with \$22.7 million for the year ended December 29, 2010 due to the factors noted above.

Liquidity and Capital Resources

Summary of Cash Flows

Our primary sources of liquidity and capital resources are cash generated from operations, borrowings under our credit facility (as described below) and, in recent years, cash proceeds from the sale of restaurant operations to franchisees and sales of surplus properties, to the extent allowed by our credit facility. Principal uses of cash are operating expenses, capital expenditures, debt repayments and, recently, the repurchase of shares of our Common Stock.

The following table presents a summary of our sources and uses of cash and cash equivalents for the periods indicated:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	

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Net cash provided by operating activities	\$59,204	\$59,509	
Net cash used in investing activities	(3,501) (7,697)
Net cash used in financing activities	(55,878) (67,146)
Net decrease in cash and cash equivalents	\$(175) \$(15,334)

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We believe that our estimated cash flows from operations for 2012, combined with our capacity for additional borrowings under our credit facility, will enable us to meet our anticipated cash requirements and fund capital expenditures over the next twelve months.

Net cash flows used in investing activities were \$3.5 million for the year ended December 26, 2012. These cash flows include \$15.6 million in proceeds from asset sales and collections of notes receivable of \$2.0 million, partially offset by capital expenditures of \$14.2 million, acquisition of a restaurant unit of \$1.4 million and issuances of notes receivable of \$5.4 million. The notes receivable primarily consist of notes from franchisees related to the system-wide roll-out of new coffee equipment. Of these notes receivable, approximately \$4.1 million are due within the next 12 months. Our principal capital requirements have been largely associated with the following:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Facilities	\$4,979	\$5,404
New construction	5,682	7,884
Remodeling	1,273	1,412
Information technology	563	521
Other	1,667	868
Capital expenditures	\$14,164	\$16,089

The decrease in new construction is primarily the result of the conversion of restaurants at Pilot Flying J Travel Centers during the prior year. Capital expenditures for fiscal 2013 are expected to be approximately \$17-19 million, including approximately 20-25 remodels at company restaurants.

Cash flows used in financing activities were \$55.9 million for the year ended December 26, 2012, which included net debt reduction of \$32.7 million, stock repurchases of \$21.6 million, deferred financing costs of \$1.8 million and debt transactions costs of \$1.1 million.

Our working capital deficit was \$27.2 million at December 26, 2012 compared with \$25.9 million at December 28, 2011. The increase in working capital deficit is primarily related to the timing of payments impacting prepaid and payable balances. We are able to operate with a substantial working capital deficit because (1) restaurant operations and most food service operations are conducted primarily on a cash (and cash equivalent) basis with a low level of accounts receivable, (2) rapid turnover allows a limited investment in inventories, and (3) accounts payable for food, beverages and supplies usually become due after the receipt of cash from the related sales.

Refinancing of Credit Facility

On April 12, 2012, Denny's Corporation and certain of its subsidiaries refinanced our credit facility (the "Old Credit Facility") and entered into a new five-year senior secured credit agreement in an aggregate principal of \$250 million (the "New Credit Facility"). The New Credit Facility is comprised of a \$190 million senior secured term loan and a \$60 million senior secured revolver (with a \$30 million letter of credit sublimit). A commitment fee of 50 basis points is paid on the unused portion of the revolving credit facility. Borrowings for the term loan bear a tiered interest rate based on the company's consolidated leverage ratio and was initially set at LIBOR plus 300 basis points. The New Credit Facility does not contain an interest rate floor for either the term loan or the revolver. It includes an accordion feature that would allow us to increase the size of the facility to \$300 million. The maturity date for the New Credit Facility is April 12, 2017.

The New Credit Facility was used to refinance the Old Credit Facility and is available for working capital, capital expenditures and other general corporate purposes. The New Credit Facility is guaranteed by Denny's Corporation and its material subsidiaries and is secured by substantially all of the assets of Denny's Corporation and its subsidiaries, including the stock of the company's subsidiaries. It includes negative covenants that are usual for facilities and transactions of this type. The New Credit Facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charged coverage ratio and maximum capital expenditures.

The term loan under the New Credit Facility amortizes \$19.0 million annually, payable in quarterly installments, with all remaining amounts due on the maturity date. We will be required to make certain mandatory prepayments under certain circumstances and will have the option to make certain prepayments under the New Credit Facility. The optional prepayments can be applied against future amortization. The New Credit Facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are usual for facilities and transactions of this type.

On April 13, 2012, we entered into interest rate hedges that cap the LIBOR rate on borrowings for the term loan under the New Credit Facility during the first two years of the term loan. The 200 basis point LIBOR cap applies to \$150 million of term loan borrowings during the first year and \$125 million of term loan borrowings during the second year.

As a result of the debt refinancing, we recorded \$7.9 million of losses on early extinguishment of debt, consisting primarily of \$1.2 million of transaction costs, \$4.7 million from the write-off of deferred financing costs and \$2.0 million from the write-off of an original issue discount ("OID") related to the Old Credit Facility. These losses are included as a component of other nonoperating expense in the Consolidated Statements of Income.

As of December 26, 2012, under the New Credit Facility, we had outstanding term loan borrowings of \$170.0 million and outstanding letters of credit under the revolving letter of credit facility of \$25.2 million. There were no revolving loans outstanding at December 26, 2012. These balances resulted in availability of \$34.8 million under the revolving facility. The weighted-average interest rate under the term loan was 2.97% as of December 26, 2012. In accordance with the debt covenants, the reduction in term loan debt since the refinancing resulted in a decrease in the interest rate. The rate is currently set at LIBOR plus 275 basis points and the commitment fee was reduced to 37.5 basis points.

Our future contractual obligations and commitments at December 26, 2012 consisted of the following:

	Payments Due by Period				
	Total	Less than 1 Year	1-2 Years	3-4 Years	5 Years and Thereafter
	(In thousands)				
Long-term debt	\$170,000	\$8,500	\$38,000	\$123,500	\$—
Capital lease obligations (a)	34,226	7,364	10,821	6,379	9,662
Operating lease obligations	249,215	36,420	63,513	50,514	98,768
Interest obligations (a)	17,431	4,958	8,323	4,150	—
Pension and other defined contribution plan obligations (b)	3,141	3,141	—	—	—
Purchase obligations (c)	178,502	164,443	10,225	3,834	—
Total	\$652,515	\$224,826	\$130,882	\$188,377	\$108,430

(a) Interest obligations represent payments related to our long-term debt outstanding at December 26, 2012. For long-term debt with variable rates, we have used the rate applicable at December 26, 2012 to project interest over the periods presented in the table above. The capital lease obligation amounts above are inclusive of interest.

(b) Pension and other defined contribution plan obligations are estimates based on facts and circumstances at December 26, 2012. Amounts cannot currently be estimated for more than one year.

(c) Purchase obligations include amounts payable under purchase contracts for food and non-food products. Many of these agreements do not obligate us to purchase any specific volumes and include provisions that would allow us to cancel such agreements with appropriate notice. For agreements with cancellation provisions, amounts included in the table above represent our estimate of purchase obligations during the periods presented if we were to cancel

these contracts with appropriate notice.

Unrecognized tax benefits are not included in the contractual obligations table as these liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. At December 26, 2012, there were no unrecognized tax benefits including potential interest and penalties.

Off-Balance Sheet Arrangements

Except for operating leases entered into the normal course of business, we do not have any off balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to self-insurance liabilities, impairment of long-lived assets, restructuring and exit costs, income taxes and share-based compensation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

Self-insurance liabilities. We record liabilities for insurance claims during periods in which we have been insured under large deductible programs or have been self-insured for our medical and dental claims and workers' compensation, general/product and automobile insurance liabilities. Maximum self-insured retention, including defense costs per occurrence, ranges from \$0.5 million to \$1.0 million per individual claim for workers' compensation and for general/product and automobile liability. The liabilities for prior and current estimated incurred losses are discounted to their present value based on expected loss payment patterns determined by independent actuaries using our actual historical payments. These estimates include assumptions regarding claims frequency and severity as well as changes in our business environment, medical costs and the regulatory environment that could impact our overall self-insurance costs.

Total discounted workers' compensation and general liability insurance liabilities at December 26, 2012 and December 28, 2011 were \$23.2 million reflecting a 1.0% discount rate and \$24.6 million reflecting a 1.5% discount rate, respectively. The related undiscounted amounts at such dates were \$23.8 million and \$25.6 million, respectively.

Impairment of long-lived assets. We evaluate our long-lived assets for impairment at the restaurant level on a quarterly basis, when assets are identified as held for sale or whenever changes or events indicate that the carrying value may not be recoverable. We assess impairment of restaurant-level assets based on the operating cash flows of the restaurant, expected proceeds from the sale of assets and our plans for restaurant closings. Generally, all restaurants with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. In performing our assessment, we make assumptions regarding estimated future cash flows, including estimated proceeds from similar asset sales, and other factors to determine both the recoverability and the estimated fair value of the respective assets. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges.

During 2012, 2011 and 2010, we recorded impairment charges of \$3.7 million, \$4.1 million, and \$0.4 million, respectively, for underperforming restaurants, including restaurants closed and company restaurants classified as held for sale. These charges are included as a component of operating (gains), losses and other charges, net in our

Consolidated Statements of Income. At December 26, 2012, we had a total of two restaurants with an aggregate net book value of approximately \$0.3 million, after taking into consideration impairment charges recorded, which had negative cash flows from operations for the most recent twelve months.

Restructuring and exit costs. As a result of changes in our organizational structure and in our portfolio of restaurants, we have recorded charges for restructuring and exit costs. These costs consist primarily of the costs of future obligations related to closed restaurants and severance and other restructuring charges for terminated employees. These costs are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Discounted liabilities for future lease costs and the fair value of related subleases of closed restaurants are recorded when the restaurants are closed. All other costs related to closed restaurants are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed restaurants, we make assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates.

The most significant estimate included in our accrued exit costs liabilities relates to the timing and amount of estimated subleases. At December 26, 2012, our total discounted liability for closed restaurants was approximately \$4.1 million, net of \$1.8 million related to existing sublease agreements and \$3.3 million related to properties for which we expect to enter into sublease agreements in the future. If any of the estimates noted above or their related assumptions change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded.

Income taxes. We record valuation allowances against our deferred tax assets, when necessary. Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. We assess the likelihood that our deferred tax assets in each of the jurisdictions in which we operate will be recovered from future taxable income. Deferred tax assets do not include future tax benefits that we deem likely not to be realized.

During the quarter ended December 28, 2011, we concluded that it was more likely than not that certain of our deferred tax assets will be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of \$89.1 million. The release of our valuation allowance was determined in accordance with the provisions of ASC 740, which require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such an assessment is required on a jurisdiction-by-jurisdiction basis. Our historical operating income and continuing projected income represented sufficient evidence to conclude that it is more likely than not that the majority of our deferred tax assets will be realized.

Share-based compensation. Stock-based compensation is estimated for equity awards at fair value at the grant date. We determine the fair value of stock options using the Black-Scholes option pricing model. Use of this option pricing model requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of our Common Stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). The fair value of restricted stock units containing a market condition is determined using the Monte Carlo valuation method, which utilizes multiple input variables to determine the probability of the Company achieving the market condition. Changes in the subjective assumptions can materially affect the estimate of the fair value of share-based compensation and consequently, the related amount recognized in the Consolidated Statements of Income.

Recent Accounting Pronouncements

See the New Accounting Standards section of Note 2 to our Consolidated Financial Statements included in Part II, Item 8 of this report for further details of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We have exposure to interest rate risk related to certain instruments entered into for other than trading purposes. Specifically, as of December 26, 2012, borrowings under our term loan and revolver bore interest at variable rates

based on LIBOR plus a spread of 275 basis points per annum. Up to \$150 million of the term loan borrowings has a 200 basis point LIBOR point cap.

Based on the levels of borrowings under the credit facility, if interest rates changed by 100 basis points, our annual cash flow and income before taxes would change by approximately \$1.7 million. This computation is determined by considering the impact of hypothetical interest rates on the credit facility, taking into consideration the interest rate cap. However, the nature and amount of our borrowings under the credit facility may vary as a result of future business requirements, market conditions and other factors.

We also have exposure to interest rate risk related to our pension plan, other defined benefit plans and self-insurance liabilities. A 25 basis point increase or decrease in discount rate would increase or decrease our projected benefit obligation related to our pension plan by approximately \$2.6 million and would impact the pension plan's net periodic benefit cost by approximately \$0.3 million. The impact of a 25 basis point increase or decrease in discount rate would decrease or increase our projected benefit obligation related to our other defined benefit plans by less than \$0.1 million while the plans' net periodic benefit cost would remain flat. A 25 basis point increase or decrease in discount rate related to our self-insurance liabilities would result in a decrease or increase of \$0.2 million, respectively.

Commodity Price Risk

We purchase certain food products, such as beef, poultry, pork, eggs and coffee, and utilities such as gas and electricity, which are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors that are outside our control and which are generally unpredictable. Changes in commodity prices affect us and our competitors generally and often simultaneously. In general, we purchase food products and utilities based upon market prices established with vendors. Although many of the items purchased are subject to changes in commodity prices, the majority of our purchasing arrangements are structured to contain features that minimize price volatility by establishing fixed pricing and/or price ceilings and floors. We use these types of purchase arrangements to control costs as an alternative to using financial instruments to hedge commodity prices. In many cases, we believe we will be able to address commodity cost increases which are significant and appear to be long-term in nature by adjusting our menu pricing or changing our product delivery strategy. However, competitive circumstances could limit such actions and, in those circumstances, increases in commodity prices could lower our margins. Because of the often short-term nature of commodity pricing aberrations and our ability to change menu pricing or product delivery strategies in response to commodity price increases, we believe that the impact of commodity price risk is not significant.

We have established a policy to identify, control and manage market risks which may arise from changes in interest rates, commodity prices and other relevant rates and prices. We do not use derivative instruments for trading purposes.

Item 8. Financial Statements and Supplementary Data

See Index to Financial Statements which appears on page F-1 herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

A. Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") our management conducted an evaluation (under the supervision and with the participation of our President and Chief Executive Officer, John C. Miller, and our Executive Vice President, Chief Administrative Officer and Chief Financial Officer, F. Mark Wolfinger) as of the end of the period covered by this Annual Report on Form 10-K, of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, Messrs. Miller and Wolfinger each concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act, (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to our management, including Messrs. Miller and Wolfinger, as

appropriate to allow timely decisions regarding required disclosure.

B. Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of December 26, 2012. Management's assessment was based on criteria set forth in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this assessment, management concluded that, as of December 26, 2012, our internal control over financial reporting was effective, based upon those criteria.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on our internal control over financial reporting, which follows this report.

C. Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) of the Exchange Act that occurred during our last fiscal quarter (our fourth fiscal quarter) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited Denny's Corporation's (the Company) internal control over financial reporting as of December 26, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A.B.). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Denny's Corporation maintained, in all material respects, effective internal control over financial reporting as of December 26, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Denny's Corporation and subsidiaries as of December 26, 2012 and December 28, 2011, and the related consolidated statements of income, comprehensive income, shareholders' deficit, and cash flows for each of the fiscal years in the three-year period ended December 26, 2012, and our report dated March 11, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Greenville, South Carolina
March 11, 2013

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Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item with respect to our executive officers and directors; compliance by our directors, executive officers and certain beneficial owners of our Common Stock with Section 16(a) of the Exchange Act; the committees of our Board of Directors; our Audit Committee Financial Expert; and our Code of Ethics is furnished by incorporation by reference to information under the captions entitled "Election of Directors", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Code of Ethics" in the proxy statement (to be filed hereafter) in connection with Denny's Corporation's 2013 Annual Meeting of the Shareholders (the "proxy statement") and possibly elsewhere in the proxy statement (or will be filed by amendment to this report). Additional information required by this item related to our executive officers appears in Item 1 of Part I of this report under the caption "Executive Officers of the Registrant."

Item 11. Executive Compensation

The information required by this item is furnished by incorporation by reference to information under the captions entitled "Executive Compensation" and "Election of Directors" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is furnished by incorporation by reference to information under the caption "General—Equity Security Ownership" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is furnished by incorporation by reference to information under the captions "Related Party Transactions" and "Election of Directors" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

Item 14. Principal Accounting Fees and Services

The information required by this item is furnished by incorporation by reference to information under the caption entitled "Selection of Independent Registered Public Accounting Firm" in the proxy statement and possibly elsewhere in the proxy statement (or will be filed by amendment to this report).

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: See the Index to Financial Statements which appears on page F-1 hereof.

(a)(2) Financial Statement Schedules: No schedules are filed herewith because of the absence of conditions under which they are required or because the information called for is in our Consolidated Financial Statements or notes thereto appearing elsewhere herein.

(a)(3) Exhibits: Certain of the exhibits to this Report, indicated by an asterisk, are hereby incorporated by reference from other documents on file with the Commission with which they are electronically filed, to be a part hereof as of their respective dates.

Exhibit No. Description

- *3.1 Restated Certificate of Incorporation of Denny's Corporation dated March 3, 2003, as amended by Certificate of Amendment to Restated Certificate of Incorporation to Increase Authorized Capitalization dated August 25, 2004 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2004).
- *3.2 By-Laws of Denny's Corporation, as effective as of November 11, 2009 (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of Denny's Corporation filed with the Commission on November 16, 2009).
- +*10.1 Advantica Stock Option Plan as amended through November 28, 2001 (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Denny's Corporation (then known as Advantica) for the year ended December 26, 2001).
- +*10.2 Denny's, Inc. Omnibus Incentive Compensation Plan for Executives (incorporated by reference to Exhibit 99 to the Registration Statement on Form S-8 of Denny's Corporation (No. 333-103220) filed with the Commission on February 14, 2003).
- +*10.3 Description of amendments to the Denny's, Inc. Omnibus Incentive Compensation Plan for Executives, the Advantica Stock Option Plan and the Advantica Restaurant Group Director Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2004).
- +*10.4 Form of stock option agreement to be used under the Denny's Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-8 of Denny's Corporation (File No. 333-120093) filed with the Commission on October 29, 2004).
- +*10.5 Form of deferred stock unit award certificate to be used under the Denny's Corporation 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2004).
- +*10.6 Employment Offer Letter dated August 16, 2005 between Denny's Corporation and F. Mark Wolfinger (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 28, 2005).
- +*10.7 Employment Offer Letter dated July 19, 2010 between Denny's Corporation and Frances L. Allen (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2010).
- +*10.8 Employment Offer Letter dated August 20, 2010 between Denny's Corporation and Robert Rodriguez (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2010).
- +*10.9 Employment Offer Letter dated January 6, 2011 between Denny's Corporation and John C. Miller (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 30, 2011).

*10.10 Second Amended and Restated Credit Agreement dated as of September 30, 2010 among Denny's, Inc. and Denny's Realty, LLC as Borrowers, Denny's Corporation, Denny's Holdings, Inc., and DFO, LLC, as Guarantors, Bank of America, N.A., as Administrative Agent and L/C Issuer, certain other lenders and Wells Fargo Bank, N.A. as Syndication Agent (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2010).

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Exhibit No. Description

- *10.11 Second Amended and Restated Guarantee and Collateral Agreement dated as of September 30, 2010 among Denny's, Inc. and Denny's Realty, LLC, Denny's Corporation, Denny's Holdings, Inc., DFO, LLC, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended September 29, 2010).
- *10.12 First Amendment to the Second Amended and Restated Credit Agreement, dated as of March 1, 2011, among Denny's Inc. and Denny's Realty, LLC as the Borrowers, Denny's Corporation and DFO, LLC as Guarantors, each lender from time to time party hereto, and Bank of America, N.A., as Administrative Agent and L/C Issuer (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2010).
- *10.13 Credit Agreement dated as of April 12, 2012 among Denny's, Inc., as the Borrower, Denny's Corporation, as Parent, and Certain Subsidiaries of Parent, as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent and L/C Issuer, Regions Bank and General Electric Capital Corporation, as Co-Syndication Agents, Cadence Bank and RBS Citizens, N.A. as Co-Documentation Agents and The Other Lenders Party Hereto, Wells Fargo Securities, LLC, Regions Capital Markets, a Division of Regions Bank and GE Capital Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
- *10.14 Guarantee and Collateral Agreement dated as of April 12, 2012 among Denny's, Inc., Denny's Realty, LLC, Denny's Corporation, DFO, LLC, and Wells Fargo Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
- +*10.15 Award certificate evidencing restricted stock unit award to F. Mark Wolfinger, effective July 9, 2007 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on July 12, 2007).
- +*10.16 Denny's Corporation Amended and Restated Executive Severance Pay Plan.
- +*10.17 Denny's Corporation 2012 Omnibus Incentive Plan (incorporated by reference to Appendix A of the Definitive Proxy Statement of Denny's Corporation filed with the Commission on April 5, 2012).
- +*10.18 Denny's Corporation 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Denny's Corporation filed with the Commission on May 27, 2008).
- +*10.19 Amendment to the Denny's Corporation 2008 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended April 1, 2009).
- +*10.20 Denny's Corporation Amended and Restated 2004 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended June 25, 2008).
- +*10.21

Form of 2009 Long-Term Performance Incentive Program Performance Shares and Target Cash Opportunity Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended April 1, 2009).

+*10.22 Written Description of Denny's 2009 Long-Term Performance Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended April 1, 2009).

Exhibit No. Description

- +*10.23 Form of the 2010 Long-Term Performance Incentive Program Performance Shares and Target Cash Opportunity Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 31, 2010).
- +*10.24 Written Description of the Denny's 2010 Long-Term Performance Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 31, 2010).
- +*10.25 Form of the 2011 Long-Term Performance Incentive Program Performance Shares and Target Cash Opportunity Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 30, 2011).
- +*10.26 Written Description of the Denny's 2011 Long-Term Performance Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 30, 2011).
- +*10.27 Form of the 2012 Long-Term Performance Incentive Program Performance Shares and Target Cash Opportunity Award Certificate (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
- +*10.28 Written Description of the Denny's 2012 Long-Term Performance Incentive Program (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q of Denny's Corporation for the quarter ended March 28, 2012).
- +*10.29 Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2010).
- +*10.30 Form of Performance-Based Restricted Stock Unit Award Certificate (incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 29, 2010).
- +*10.31 Denny's Corporate Incentive Plan (incorporated by reference to Exhibit 10.30 to the Annual Report on Form 10-K of Denny's Corporation for the year ended December 30, 2009).
- 21.1 Subsidiaries of Denny's.
- 23.1 Consent of KPMG LLP.
- 31.1 Certification of John C. Miller, President and Chief Executive Officer of Denny's Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of F. Mark Wolfinger, Executive Vice President, Chief Administrative Officer and Chief Financial Officer of Denny's Corporation, pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1

Statement of John C. Miller, President and Chief Executive Officer of Denny's Corporation, and F. Mark Wolfinger, Executive Vice President, Chief Administrative Officer and Chief Financial Officer of Denny's Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit No. Description

101.INS^ XBRL Instance Document

101.SCH^ XBRL Taxonomy Extension Schema Document

101.CAL^ XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB^ XBRL Taxonomy Extension Label Linkbase Document

101.PRE^ XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF^ XBRL Taxonomy Extension Definition Linkbase Document

+ Denotes management contracts or compensatory plans or arrangements.

^ In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed "furnished" and not "filed."

DENNY'S CORPORATION AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Denny's Corporation

We have audited the accompanying consolidated balance sheets of Denny's Corporation and subsidiaries as of December 26, 2012 and December 28, 2011, and the related consolidated statements of income, comprehensive income, shareholders' deficit, and cash flows for each of the fiscal years in the three-year period ended December 26, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Denny's Corporation and subsidiaries as of December 26, 2012 and December 28, 2011, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 26, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 26, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Greenville, South Carolina
March 11, 2013

Denny's Corporation and Subsidiaries
Consolidated Balance Sheets

	December 26, 2012 (In thousands)	December 28, 2011	
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,565	\$ 13,740	
Receivables	19,947	14,971	
Inventories	2,890	3,438	
Assets held for sale	—	2,351	
Current deferred tax asset	19,807	15,519	
Prepaid and other current assets	8,401	11,274	
Total current assets	64,610	61,293	
Property	107,004	112,772	
Goodwill	31,430	30,764	
Intangible assets, net	48,920	50,921	
Deferred financing costs, net	2,041	5,884	
Noncurrent deferred tax asset	45,776	60,636	
Other noncurrent assets	25,104	28,231	
Total assets	\$ 324,885	\$ 350,501	
Liabilities			
Current liabilities:			
Current maturities of long-term debt	\$ 8,500	\$ 2,591	
Current maturities of capital lease obligations	4,181	4,380	
Accounts payable	24,461	25,935	
Other current liabilities	54,682	54,289	
Total current liabilities	91,824	87,195	
Long-term liabilities:			
Long-term debt, less current maturities	161,500	193,257	
Capital lease obligations, less current maturities	15,953	18,077	
Liability for insurance claims, less current portion	18,045	18,552	
Other noncurrent liabilities and deferred credits	42,023	43,096	
Total long-term liabilities	237,521	272,982	
Total liabilities	329,345	360,177	
Commitments and contingencies			
Shareholders' deficit			
Common stock \$0.01 par value; authorized - 135,000; December 26, 2012: 103,764 shares issued and 92,229 shares outstanding; December 28, 2011: 102,668 shares issued and 95,972 shares outstanding	1,038	1,027	
Paid-in capital	562,657	557,396	
Deficit	(495,518)	(517,827))
Accumulated other comprehensive loss, net of tax	(24,999)	(24,813))
	43,178	15,783	
Treasury stock, at cost, 11,535 and 6,696 shares, respectively	(47,638)	(25,459))
Total shareholders' deficit	(4,460)	(9,676))

Total liabilities and shareholders' deficit	\$324,885	\$350,501
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See accompanying notes to consolidated financial statements.

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Denny's Corporation and Subsidiaries
Consolidated Statements of Income

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands, except per share amounts)		
Revenue:			
Company restaurant sales	\$353,710	\$411,595	\$423,936
Franchise and license revenue	134,653	126,939	124,530
Total operating revenue	488,363	538,534	548,466
Costs of company restaurant sales:			
Product costs	88,473	101,796	101,470
Payroll and benefits	141,303	167,574	172,533
Occupancy	23,405	27,372	27,967
Other operating expenses	49,025	61,017	64,029
Total costs of company restaurant sales	302,206	357,759	365,999
Costs of franchise and license revenue	46,675	44,368	46,987
General and administrative expenses	60,307	55,352	55,619
Depreciation and amortization	22,304	27,979	29,637
Operating (gains), losses and other charges, net	482	2,102	(4,944)
Total operating costs and expenses, net	431,974	487,560	493,298
Operating income	56,389	50,974	55,168
Interest expense, net	13,369	20,040	25,792
Other nonoperating expense, net	7,926	2,607	5,282
Net income before income taxes	35,094	28,327	24,094
Provision for (benefit from) income taxes	12,785	(83,960)	) 1,381
Net income	\$22,309	\$112,287	\$22,713
Basic net income per share	\$0.23	\$1.15	\$0.23
Diluted net income per share	\$0.23	\$1.13	\$0.22
Weighted-average shares outstanding:			
Basic	94,949	97,646	98,902
Diluted	96,754	99,588	101,391

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
 Consolidated Statements of Comprehensive Income

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Net income	\$22,309	\$112,287	\$22,713
Other comprehensive income, net of tax:			
Minimum pension liability adjustment, net of tax benefits of \$191, \$3,615 and \$0	(186	) (5,614	) (1,153
Amortization of unrealized loss on hedged transactions	—	—	167
Other comprehensive income	(186	) (5,614	) (986
Total comprehensive income	\$22,123	\$106,673	\$21,727

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Shareholders' Deficit

	Common Stock		Treasury Stock		Paid-in	Accumulated Other Comprehensive Loss, Net	Total Shareholders' Deficit	
	Shares (In thousands)	Amount	Shares	Amount	Capital (Deficit)			
Balance, December 30, 2009	96,613	\$966	—	\$—	\$542,576	\$(652,827)	\$(18,213)	\$(127,498)
Net income	—	—	—	—	—	22,713	—	22,713
Amortization of unrealized loss on hedged transactions	—	—	—	—	—	—	167	167
Minimum pension liability adjustment	—	—	—	—	—	—	(1,153)	(1,153)
Share-based compensation on equity classified awards	—	—	—	—	1,922	—	—	1,922
Purchase of treasury stock	—	—	(1,037)	(3,890)	—	—	—	(3,890)
Issuance of common stock for share-based compensation	573	6	—	—	(6)	—	—	—
Exercise of common stock options	2,887	29	—	—	3,998	—	—	4,027
Balance, December 29, 2010	100,073	1,001	(1,037)	(3,890)	548,490	(630,114)	(19,199)	(103,712)
Net income	—	—	—	—	—	112,287	—	112,287
Minimum pension liability adjustment, net of tax benefits of \$3,615	—	—	—	—	—	—	(5,614)	(5,614)
Share-based compensation on equity classified awards	—	—	—	—	3,412	—	—	3,412
Purchase of treasury stock	—	—	(5,659)	(21,569)	—	—	—	(21,569)
Issuance of common stock for share-based compensation	452	5	—	—	(5)	—	—	—
Exercise of common stock options	2,143	21	—	—	4,829	—	—	4,850
Tax benefit from share based compensation	—	—	—	—	670	—	—	670
Balance, December 28, 2011	102,668	1,027	(6,696)	(25,459)	557,396	(517,827)	(24,813)	(9,676)
Net income	—	—	—	—	—	22,309	—	22,309
Minimum pension liability adjustment, net of tax benefits of \$191	—	—	—	—	—	—	(186)	(186)
	—	—	—	—	2,082	—	—	2,082

Share-based compensation
on equity classified
awards

Purchase of treasury stock	—	—	(4,839)	(22,179)	—	—	—	(22,179)
Issuance of common stock for share-based compensation	253	3	—	—	(3)	—	—	—
Exercise of common stock options	843	8	—	—	2,172	—	—	2,180
Tax benefit from share based compensation	—	—	—	—	1,010	—	—	1,010
Balance, December 26, 2012	103,764	\$1,038	(11,535)	\$(47,638)	\$562,657	\$(495,518)	\$(24,999)	\$(4,460)

See accompanying notes to consolidated financial statements.

Denny's Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Cash flows from operating activities:			
Net income	\$22,309	\$ 112,287	\$22,713
Adjustments to reconcile net income to cash flows provided by operating activities:			
Depreciation and amortization	22,304	27,979	29,637
Operating (gains), losses and other charges, net	482	2,102	(4,944)
Amortization of deferred financing costs	775	1,374	1,045
Amortization of debt discount	137	547	160
Loss on early extinguishment of debt	8,290	2,589	4,755
Loss on change in the fair value of interest rate cap	61	—	—
Loss on interest rate swap	—	—	167
Deferred income tax expense	11,423	3,223	324
Reversal of tax valuation allowance	(661)	(89,102)	—
Share-based compensation	3,496	4,219	2,840
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Decrease (increase) in assets:			
Receivables	(1,740)	2,232)	(1,713)
Inventories	548	598	128
Other current assets	2,820	(1,112)	(634)
Other assets	(3,172)	405)	(2,534)
Increase (decrease) in liabilities:			
Accounts payable	(1,217)	2,042)	1,366
Accrued salaries and vacations	2,279	934	(5,983)
Accrued taxes	(747)	(620)	(429)
Other accrued liabilities	(4,420)	(4,687)	(4,108)
Other noncurrent liabilities and deferred credits	(3,763)	(5,501)	(4,535)
Net cash flows provided by operating activities	59,204	59,509	38,255
Cash flows from investing activities:			
Purchase of property	(14,164)	(16,089)	(27,381)
Acquisition of restaurant	(1,422)	—	—
Proceeds from disposition of property	15,555	8,598	18,680
Collections on notes receivable	1,970	1,347	3,421
Issuance of notes receivable	(5,440)	—	—
Purchase of trademarks	—	(1,553)	—
Net cash flows used in investing activities	(3,501)	(7,697)	(5,280)
Cash flows from financing activities:			
Net borrowings under new credit agreement	190,000	—	246,250
Long-term debt payments	(222,741)	(46,253)	(268,769)
Debt transaction costs	(1,097)	(839)	(2,695)
Deferred financing costs	(1,809)	(3,421)	(5,342)
Purchase of treasury stock	(21,618)	(21,569)	(3,890)

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Proceeds from exercise of stock options	2,180	4,850	4,027	
Tax withholding on share-based payments	(327)) (377) (455)
Tax benefit of share-based compensation	1,010	670	—	
Net bank overdrafts	(1,476	) (207	) 448	
Net cash flows used in financing activities	(55,878	) (67,146	) (30,426)
Increase (decrease) in cash and cash equivalents	(175	) (15,334	) 2,549	
Cash and cash equivalents at beginning of period	13,740	29,074	26,525	
Cash and cash equivalents at end of period	\$13,565	\$13,740	\$29,074	

See accompanying notes to consolidated financial statements.

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Denny's Corporation and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Introduction and Basis of Reporting

Denny's Corporation, or Denny's, is one of America's largest full-service restaurant chains. Denny's restaurants are operated in all 50 states, the District of Columbia, two U.S. territories and seven foreign countries with principal concentrations in California (24% of total restaurants), Florida (9%) and Texas (11%).

The following table shows the unit activity for the years ended December 26, 2012 and December 28, 2011:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
Company restaurants, beginning of period	206	232
Units opened	1	8
Units acquired from franchisees	1	—
Units sold to franchisees	(36	) (30
Units closed	(8	) (4
End of period	164	206
Franchised and licensed restaurants, beginning of period	1,479	1,426
Units opened	39	53
Units relocated	2	1
Units purchased from Company	36	30
Units acquired by Company	(1) —
Units closed (including units relocated)	(31	) (31
End of period	1,524	1,479
Total restaurants, end of period	1,688	1,685

Note 2. Summary of Significant Accounting Policies

The following accounting policies significantly affect the preparation of our Consolidated Financial Statements:

Use of Estimates. In preparing our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles, management is required to make certain assumptions and estimates that affect reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingencies. In making these assumptions and estimates, management may from time to time seek advice and consider information provided by actuaries and other experts in a particular area. Actual amounts could differ materially from these estimates.

Consolidation Policy. Our Consolidated Financial Statements include the financial statements of Denny's Corporation and its wholly-owned subsidiaries: Denny's, Inc., DFO, LLC and Denny's Realty, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year. Our fiscal year ends on the Wednesday in December closest to December 31 of each year. As a result, a fifty-third week is added to a fiscal year every five or six years. Fiscal 2012, 2011 and 2010 each included 52 weeks of operations. Fiscal 2014 will be a 53 week year.

Cash Equivalents and Short-term Investments. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include short-term investments of \$11.8 million and \$12.0 million at December 26, 2012 and December 28, 2011, respectively. These amounts were held either overnight in our transaction bank accounts at highly rated financial institutions that provided earnings credits or invested in highly rated overnight investments that provided interest income.

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Receivables. Receivables, which are recorded at net realizable value, primarily consist of trade accounts receivables and financing receivables from franchisees (together “franchisee receivables”), vendor receivables and credit card receivables. Trade accounts receivables from franchisees consist of royalties, advertising and rent. Financing receivables from franchisees primarily consist of notes from franchisees related to the system-wide roll-out of new coffee equipment. We accrue interest on notes receivable based on the contractual terms. The allowance for doubtful accounts is based on pre-defined criteria and management’s judgment of existing receivables. Receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. See Note 3.

Inventories. Inventories consist of food and beverages and are valued primarily at the lower of average cost (first-in, first-out) or market.

Assets Held for Sale. Assets held for sale consist of real estate properties and/or restaurant operations that we expect to sell within the next 12 months. The assets are reported at the lower of carrying amount or fair value less costs to sell. We cease recording depreciation on assets that are classified as held for sale. If the determination is made that we no longer expect to sell an asset within the next 12 months, the asset is reclassified out of held for sale.

Property and Depreciation. Owned property is stated at cost. Property under capital leases is stated at the lesser of its fair value or the net present value of the related minimum lease payments at the lease inception. We depreciate owned property over its estimated useful life using the straight-line method. We amortize property held under capital leases (at capitalized value) over the lesser of its estimated useful life or the initial lease term. In certain situations, one or more option periods may be used in determining the depreciable life of certain leasehold improvements under operating lease agreements if we deem that an economic penalty will be incurred and exercise of such option periods is reasonably assured. In either circumstance, our policy requires lease term consistency when calculating the depreciation period, in classifying the lease and in computing rent expense. Building assets are assigned estimated useful lives that range from five to 30 years, equipment assets are assigned lives that range from two to ten years and leasehold improvements are generally assigned lives between five and 15 years limited by the expected lease term.

Goodwill. Amounts recorded as goodwill primarily represent excess reorganization value recognized as a result of our 1998 bankruptcy. In connection with the sale of company restaurant operations to franchisees, goodwill is allocated to the operations sold in the determination of the gain or loss on the sale. The allocation is based on the relative fair values of the operations sold. We test goodwill for impairment at each fiscal year end, and more frequently if circumstances indicate impairment may exist. Such indicators include, but are not limited to, a significant decline in our expected future cash flows; a significant adverse decline in our stock price; significantly adverse legal developments; and a significant change in the business climate.

Other Intangible Assets. Other intangible assets consist primarily of trademarks, trade names, franchise and other operating agreements and capitalized software development costs. Trade names and trademarks are considered indefinite-lived intangible assets and are not amortized. Franchise and other operating agreements are amortized using the straight-line basis over the term of the related agreement. Capitalized software development costs are amortized over the estimated useful life of the software. We test trade name and trademark assets for impairment at each fiscal year end, and more frequently if circumstances indicate impairment may exist. We assess impairment of franchise and other operating agreements and capitalized software development costs whenever changes or events indicate that the carrying value may not be recoverable. Costs incurred to renew or extend the term of recognized intangible assets are recorded in general and administrative expenses in our Consolidated Statement of Income.

Long-term Investments. Long-term investments include nonqualified deferred compensation plan assets held in a rabbi trust. Each plan participant's account is comprised of their contribution, our matching contribution and each participant's share of earnings or losses in the plan. The investments of the rabbi trust are comprised of debt and equity

mutual funds. They are considered trading securities and are reported at fair value in other noncurrent assets with an offsetting liability included in other noncurrent liabilities and deferred credits in our Consolidated Balance Sheets. The realized and unrealized holding gains and losses related to the investments are recorded in other income (expense) with an offsetting amount recorded in general and administrative expenses related to the liability in our Consolidated Statement of Income. During 2012, 2011 and 2010, we incurred a net gain of \$0.7 million, a net loss of less than \$0.1 million and a net gain of \$0.5 million, respectively. The fair value of the deferred compensation plan investments were \$6.4 million and \$4.9 million at December 26, 2012 and December 28, 2011, respectively.

Deferred Financing Costs. Costs related to the issuance of debt are deferred and amortized as a component of interest expense using the effective interest method over the terms of the respective debt issuances.

Cash Overdrafts. We have included in accounts payable in our Consolidated Balance Sheets cash overdrafts totaling \$6.3 million and \$7.8 million at December 26, 2012 and December 28, 2011, respectively. Changes in such amounts are reflected in cash flows from financing activities in the Consolidated Statements of Cash Flows.

Self-insurance liabilities. We record liabilities for insurance claims during periods in which we have been insured under large deductible programs or have been self-insured for our medical and dental claims and workers' compensation, general/product and automobile insurance liabilities. Maximum self-insured retention levels, including defense costs per occurrence, range from \$0.5 million to \$1.0 million per individual claim for workers' compensation and for general/product and automobile liability. The liabilities for prior and current estimated incurred losses are discounted to their present value based on expected loss payment patterns determined by independent actuaries using our actual historical payments.

Total discounted insurance liabilities at December 26, 2012 and December 28, 2011 were \$23.2 million reflecting a 1.0% discount rate and \$24.6 million reflecting a 1.5% discount rate, respectively. The related undiscounted amounts at such dates were \$23.8 million and \$25.6 million, respectively.

Income Taxes. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We record a valuation allowance to reduce our net deferred tax assets to the amount that is more likely than not to be realized. Interest and penalties accrued in relation to unrecognized tax benefits are recognized in income tax expense.

Leases and Subleases. Our policy requires the use of a consistent lease term for (i) calculating the maximum depreciation period for related buildings and leasehold improvements; (ii) classifying the lease; and (iii) computing periodic rent expense increases where the lease terms include escalations in rent over the lease term. The lease term commences on the date we gain access to and control over the leased property. We account for rent escalations in leases on a straight-line basis over the expected lease term. Any rent holidays after lease commencement are recognized on a straight-line basis over the expected lease term, which includes the rent holiday period. Leasehold improvements that have been funded by lessors have historically been insignificant. Any leasehold improvements we make that are funded by lessor incentives or allowances under operating leases are recorded as leasehold improvement assets and amortized over the expected lease term. Such incentives are also recorded as deferred rent and amortized as reductions to lease expense over the expected lease term. We record contingent rent expense based on estimated sales for respective restaurants over the contingency period. Contingent rental income is recognized when earned.

Fair Value Measurements. The carrying amounts of cash and cash equivalents, investments, accounts receivables, accounts payable and accrued expenses are deemed to approximate fair value due to the immediate or short-term maturity of these instruments. The fair value of notes receivable approximates the carrying value after consideration of recorded allowances. The fair value of our debt is based on market quotations for the same or similar debt issues or the estimated borrowing rates available to us. The difference between the estimated fair value of long-term debt compared with its historical cost reported in our Consolidated Financial Statements relates to the market quotations for our senior secured term loan. See Note 10.

Derivative Instruments. From time to time, we may utilize derivative financial instruments to manage our exposure to interest rate risk and commodity risk in relation to natural gas costs. We do not enter into derivative instruments for trading or speculative purposes. All derivatives are recognized on the consolidated balance sheets at fair value based upon quoted market prices. Changes in the fair values of derivatives are recorded in earnings or other comprehensive income, based on whether the instrument is designated as a hedge transaction. Gains or losses on derivative instruments reported in other comprehensive income are classified to earnings in the period the hedged item affects

earnings. If the underlying hedge transaction ceases to exist, any associated amounts reported in other comprehensive income are reclassified to earnings at that time. Any ineffectiveness is recognized in earnings in the current period.

Contingencies and Litigation. We are subject to legal proceedings involving ordinary and routine claims incidental to our business, as well as legal proceedings that are nonroutine and include compensatory or punitive damage claims. Our ultimate legal and financial liability with respect to such matters cannot be estimated with certainty and requires the use of estimates in recording liabilities for potential litigation settlements. When the reasonable estimate is a range, the recorded loss will be the best estimate within the range. We record legal settlement costs as other operating expenses in our Consolidated Statements of Income as those costs are incurred.

Comprehensive Income. Comprehensive income includes net income and other comprehensive income items that are excluded from net income under U.S. generally accepted accounting principles. Other comprehensive income items include additional minimum pension liability adjustments and the effective unrealized portion of changes in the fair value of cash flow hedges.

Segment. Denny's operates in only one segment. All significant revenues and pre-tax earnings relate to retail sales of food and beverages to the general public through either company or franchised restaurants.

Company Restaurant Sales. Company restaurant sales are recognized when food and beverage products are sold at company restaurants. We present company restaurant sales net of sales taxes.

Gift cards. We sell gift cards which have no stated expiration dates. We recognize revenue from gift cards when the gift card is redeemed by the customer or when we determine the likelihood of redemption is remote (gift card breakage). Breakage is based on our company-specific historical redemption patterns. We recognized \$0.3 million and \$0.3 million in breakage on gift cards for the years ended December 26, 2012 and December 28, 2011, respectively. We believe that the amounts recognized for breakage have been and will continue to be insignificant.

Franchise and License Fees. We recognize initial franchise and license fees when all of the material obligations have been performed and conditions have been satisfied, typically when operations of a new franchised restaurant have commenced. During 2012, 2011 and 2010, we recorded initial fees of \$3.0 million, \$3.1 million and \$6.6 million, respectively, as a component of franchise and license revenue in our Consolidated Statements of Income. At December 26, 2012 and December 28, 2011, deferred fees were \$1.2 million and \$1.1 million, respectively, and are included in other accrued liabilities in the accompanying Consolidated Balance Sheets. Continuing fees, such as royalties and rents, are recorded as income on a monthly basis. Our ten largest franchisees accounted for 32%, 34% and 33% of our franchise revenues for 2012, 2011 and 2010, respectively.

Advertising Costs. We expense production costs for radio and television advertising in the year in which the commercials are initially aired. Advertising expense for 2012, 2011 and 2010 was \$13.4 million, \$16.1 million and \$17.4 million, respectively, net of contributions from franchisees of \$65.1 million, \$60.5 million and \$52.1 million, respectively. Advertising costs are recorded as a component of other operating expenses in our Consolidated Statements of Income.

Restructuring and exit costs. Restructuring and exit costs consist primarily of the costs of future obligations related to closed restaurants, severance and other restructuring charges for terminated employees, and are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Discounted liabilities for future lease costs and the fair value of related subleases of closed restaurants are recorded when the restaurants are closed. All other costs related to closed restaurants are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed restaurants, we make assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, we may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates.

We evaluate store closures for potential disclosure as discontinued operations based on an assessment of several quantitative and qualitative factors, including the nature of the closure, revenue migration to other company and franchised stores and planned market development in the vicinity of the disposed store.

Impairment of Long-lived Assets. We evaluate our long-lived assets for impairment at the restaurant level on a quarterly basis, when assets are identified as held for sale or whenever changes or events indicate that the carrying

value may not be recoverable. We assess impairment of restaurant-level assets based on the operating cash flows of the restaurant, expected proceeds from the sale of assets and our plans for restaurant closings. Generally, all restaurants with negative cash flows from operations for the most recent twelve months at each quarter end are included in our assessment. In performing our assessment, we make assumptions regarding estimated future cash flows, including estimated proceeds from similar asset sales, and other factors to determine both the recoverability and the estimated fair value of the respective assets. If the long-lived assets of a restaurant are not recoverable based upon estimated future, undiscounted cash flows, we write the assets down to their fair value. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges. These charges are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Gains on Sales of Restaurants Operations to Franchisees, Real Estate and Other Assets. Generally, gains on sales of restaurant operations to franchisees (which may include real estate), real estate properties and other assets are recognized when the sales are consummated and certain other gain recognition criteria are met. Total gains are included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Share-Based Compensation. Share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. We estimate potential forfeitures of share-based awards and adjust the forfeiture rate over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Share-based compensation expense is included as a component of general and administrative expenses in our Consolidated Statements of Income. Any benefit of tax deductions in excess of recognized compensation cost is reported as a financing activity on our Consolidated Statements of Cash Flows.

There were no stock options granted during 2012. The fair value of the stock options granted during 2011 and 2010 was estimated at the date of grant using the Black-Scholes option pricing model. We used the following weighted-average assumptions for the grants:

	Fiscal Year Ended	
	December 28, 2011	December 29, 2010
Dividend yield	0.0	% 0.0
Expected volatility	60.3	% 60.3
Risk-free interest rate	2.0	% 2.2
Weighted-average expected term	4.7 years	4.7 years

The dividend yield assumption was based on our dividend payment history and expectations of future dividend payments. The expected volatility was based on the historical volatility of our stock for a period approximating the expected life of the options granted. The risk-free interest rate was based on published U.S. Treasury spot rates in effect at the time of grant with terms approximating the expected life of the option. The weighted-average expected term of the options represents the period of time the options are expected to be outstanding based on historical trends.

Compensation expense for options is recognized on a straight-line basis over the requisite service period for the entire award. Generally, compensation expense related to restricted stock units, performance shares, performance units and board deferred stock units is based on the number of shares and units expected to vest, the period over which they are expected to vest and the fair market value of the common stock on the date of the grant. For restricted stock units and performance shares that contain a market condition, compensation expense is based on the Monte Carlo valuation method, which utilizes multiple input variables to determine the probability of the Company achieving the market condition and the fair value of the award. The amount of certain cash-settled awards is determined based on the date of payment. Therefore, compensation expense related to these cash-settled awards is adjusted to fair value at each balance sheet date.

Subsequent to the vesting period, earned stock-settled restricted stock units and performance shares (both of which are equity classified) are paid to the holder in shares of common stock, and the cash-settled restricted stock units and performance units (both of which are liability classified) are paid to the holder in cash, provided the holder is then still employed with Denny's or an affiliate.

Earnings Per Share. Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares and potential common shares outstanding during the period.

Newly Adopted Accounting Standards.

Fair Value

ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs"

Effective December 29, 2011, we adopted ASU 2011-04, which provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption did not have a material impact on the disclosures included in our Consolidated Financial Statements.

Comprehensive Income

ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income"

Effective December 29, 2011, we adopted ASU 2011-05, which amends existing guidance to allow only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive financial statements consisting of an income statement followed by a statement of other comprehensive income. ASU No. 2011-05 requires retrospective application. The adoption concerns presentation and disclosure only and did not have an impact on our financial position or results of operations.

ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05"

Effective December 29, 2011, we adopted ASU 2011-12, which effectively defers the changes in ASU 2011-05 that relate to the presentation of reclassification out of accumulated other comprehensive income. All other requirements of ASU 2011-05 are not affected by this update. The adoption did not have a material impact on our Consolidated Financial Statements.

Goodwill

ASU No. 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment"

Effective December 29, 2011, we adopted ASU 2011-08, which modifies the impairment test for goodwill. Under the new guidance, an entity is permitted to make a qualitative assessment of whether it is more likely than not that the reporting unit's fair value is less than the carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. We did not elect to use the qualitative assessment option for our current year goodwill impairment test.

Accounting Standards to be Adopted.

Intangibles

ASU No. 2012-02, "Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment"

In July 2012, the FASB issued ASU 2012-02, which modifies the impairment test for indefinite-lived intangible assets. Under the new guidance, an entity is permitted to make a qualitative assessment of whether it is more likely than not that the indefinite-lived intangible asset is impaired. If it is determined through the qualitative assessment that the indefinite-lived intangible asset's fair value is more likely than not greater than its carrying value, the quantitative impairment calculations would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. The guidance is effective for impairment tests for fiscal years beginning after September 15, 2012 (our fiscal 2013). We do not believe the adoption of this guidance will have a material impact on our Consolidated Financial Statements.

Note 3. Receivables

Receivables, net were comprised of the following:

	December 26, 2012 (In thousands)	December 28, 2011
Current assets:		
Receivables:		
Trade accounts receivable from franchisees	\$ 10,212	\$ 9,452
Notes receivable from franchisees and third parties	4,310	992
Vendor receivables	2,529	2,311
Credit card receivables	1,384	1,137
Other	1,524	1,087
Allowance for doubtful accounts	(12)	(8)
	\$ 19,947	\$ 14,971
Noncurrent assets (included as a component of other noncurrent assets):		
Notes receivable from franchisees	\$ 1,002	\$ 560

We recorded provisions for credit losses of less than \$0.1 million for both the years ended December 26, 2012 and December 28, 2011, respectively.

We recognized interest income on notes receivable from franchisees of \$0.1 million, \$0.2 million and \$0.3 million for the years ended December 26, 2012, December 28, 2011 and December 29, 2010, respectively, which is included as a component of interest expense, net on our Consolidated Statements of Income.

Note 4. Assets Held for Sale

There were no assets held for sale as of December 26, 2012. Assets held for sale of \$2.4 million as of December 28, 2011 consisted of restaurants to be sold to franchisees. As a result of classifying certain assets as held for sale, we recognized impairment charges of \$2.6 million, \$0.8 million and \$0.1 million for the years ended December 26, 2012, December 28, 2011 and December 29, 2010, respectively. This expense is included as a component of operating (gains), losses and other charges, net in our Consolidated Statements of Income.

Note 5. Property, Net

Property, net consisted of the following:

	December 26, 2012 (In thousands)	December 28, 2011
Land	\$ 26,622	\$ 27,144
Buildings and leasehold improvements	228,132	214,283
Other property and equipment	73,851	81,030
Total property owned	328,605	322,457
Less accumulated depreciation	234,046	223,010
Property owned, net	94,559	99,447
Buildings, vehicles, and other equipment held under capital leases	28,572	31,417
Less accumulated amortization	16,127	18,092
Property held under capital leases, net	12,445	13,325
Total property, net	\$ 107,004	\$ 112,772

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The following table reflects the property assets, included in the table above, which were leased to franchisees:

	December 26, 2012 (In thousands)	December 28, 2011
Land	\$14,377	\$12,219
Buildings and leasehold improvements	66,207	36,239
Total property owned, leased to franchisees	80,584	48,458
Less accumulated depreciation	55,647	33,064
Property owned, leased to franchisees, net	24,937	15,394
Buildings held under capital leases, leased to franchisees	13,834	16,224
Less accumulated amortization	9,627	11,204
Property held under capital leases, leased to franchisees, net	4,207	5,020
Total property leased to franchisees, net	\$29,144	\$20,414

Depreciation expense, including amortization of property under capital leases, for 2012, 2011 and 2010 was \$19.1 million, \$23.7 million and \$24.5 million, respectively. Substantially all owned property is pledged as collateral for our Credit Facility. See Note 11.

Note 6. Goodwill and Other Intangible Assets

The following table reflects the changes in carrying amounts of goodwill:

	December 26, 2012 (In thousands)	December 28, 2011
Balance, beginning of year	\$30,764	\$31,308
Addition related to acquisition of restaurant unit	1,022	—
Write-offs and reclassifications associated with sale of restaurants	(356	) (544
Balance, end of year	\$31,430	\$30,764

Goodwill and intangible assets were comprised of the following:

	December 26, 2012		December 28, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Goodwill	\$31,430	\$—	\$30,764	\$—
Intangible assets with indefinite lives:				
Trade names	\$44,050	\$—	\$44,046	\$—
Liquor licenses	156	—	164	—
Intangible assets with definite lives:				
Franchise and license agreements	37,524	32,863	42,778	36,132
Foreign license agreements	241	188	241	176
Intangible assets	\$81,971	\$33,051	\$87,229	\$36,308

The \$5.3 million decrease in franchise and license agreements primarily resulted from the removal of fully amortized agreements. The amortization expense for definite-lived intangibles and other assets for 2012, 2011 and 2010 was \$3.2 million, \$4.2 million and \$5.1 million, respectively.

Estimated amortization expense for intangible assets with definite lives in the next five years is as follows:

	(In thousands)
2013	\$1,981
2014	1,426
2015	862
2016	315
2017	83

We performed an annual impairment test as of December 26, 2012 and determined that none of the recorded goodwill or other intangible assets with indefinite lives were impaired.

Note 7. Other Current Liabilities

Other current liabilities consisted of the following:

	December 26, 2012 (In thousands)	December 28, 2011
Accrued salaries and vacation	\$20,642	\$17,804
Accrued insurance, primarily current portion of liability for insurance claims	7,122	8,168
Accrued taxes	6,157	6,904
Accrued interest	388	1,113
Restructuring charges and exit costs	1,829	1,151
Accrued advertising	5,728	6,552
Other	12,816	12,597
Other current liabilities	54,682	54,289

Note 8. Operating (Gains), Losses and Other Charges, Net

Operating (gains), losses and other charges, net were comprised of the following:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Gains on sales of assets and other, net	\$(7,090)	) \$(3,187	) \$(9,481
Restructuring charges and exit costs	3,912	1,234	4,162
Impairment charges	3,660	4,055	375
Operating (gains), losses and other charges, net	\$482	\$2,102	\$(4,944

Restructuring Charges and Exit Costs

Restructuring charges and exit costs were comprised of the following:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Exit costs	\$1,926	\$848	\$1,247
Severance and other restructuring charges	1,986	386	2,915
Total restructuring charges and exit costs	\$3,912	\$1,234	\$4,162

Severance and other restructuring charges of \$2.0 million for 2012 includes charges related to the departure of the Company's former Chief Operating Officer. Severance and other restructuring charges of \$2.9 million for 2010 resulted primarily from severance costs related to the departure of our former Chief Executive Officer.

The components of the change in accrued exit cost liabilities were as follows:

	December 26, 2012	December 28, 2011
	(In thousands)	
Balance, beginning of year	\$3,863	\$4,948
Exit costs (1)	1,926	848
Payments, net of sublease receipts	(2,227	) (2,200
Reclassification of certain lease liabilities, net	171	(166
Interest accretion	328	433
Balance, end of year	4,061	3,863
Less current portion included in other current liabilities	1,361	1,116
Long-term portion included in other noncurrent liabilities	\$2,700	\$2,747

(1) Included as a component of operating (gains), losses and other charges, net.

Estimated cash payments related to exit cost liabilities in the next five years are as follows:

	(In thousands)
2013	\$1,551
2014	1,070
2015	380
2016	321
2017	323
Thereafter	1,325
Total	4,970
Less imputed interest	909
Present value of exit cost liabilities	\$4,061

The present value of exit cost liabilities is net of \$1.8 million of existing sublease arrangements and \$3.3 million related to properties for which we expect to enter into sublease agreements in the future. See Note 9 for a schedule of future minimum lease commitments and amounts to be received as lessor or sub-lessor for both open and closed restaurants.

As of December 26, 2012 and December 28, 2011, we had accrued severance and other restructuring charges of \$0.5 million and less than \$0.1 million, respectively. The balance as of December 26, 2012 is expected to be paid during 2013.

Impairment charges of \$3.7 million for the year ended December 26, 2012 resulted primarily from the impairment of seven restaurants identified as held for sale and the impairment of an underperforming unit.

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Note 9. Leases

Our operations utilize property, facilities and equipment leased from others. Buildings and facilities are primarily used for restaurants and support facilities. Many of our restaurants are operated under lease arrangements which generally provide for a fixed basic rent, and, in many instances, contingent rent based on a percentage of gross revenues. Initial terms of land and restaurant building leases generally range from 10 to 15 years, exclusive of options to renew, which are typically for five year periods. Leases of other equipment consist primarily of restaurant equipment, computer systems and vehicles.

Minimum future lease commitments and amounts to be received as lessor or sublessor under non-cancelable leases, including leases for both open and closed restaurants, at December 26, 2012 were as follows:

	Commitments Capital (In thousands)	Operating	Lease Receipts Operating
2013	\$7,364	\$36,420	\$36,563
2014	6,243	34,081	34,586
2015	4,578	29,432	31,244
2016	3,470	26,578	29,271
2017	2,909	23,936	27,260
Thereafter	9,662	98,768	142,203
Total	34,226	\$249,215	\$301,127
Less imputed interest	14,092		
Present value of capital lease obligations	\$20,134		

Rent expense is a component of both occupancy expense and costs of franchise and license revenue in our Consolidated Statements of Income. Lease and sublease rental income is a component of franchise and license revenue in our Consolidated Statements of Income. Net rental expense was comprised of the following:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Rental expense:			
Base rents	\$38,326	\$40,278	\$42,575
Contingent rents	5,762	5,575	4,374
Total rental expense	\$44,088	\$45,853	\$46,949
Rental income:			
Base rents	\$37,363	\$35,337	\$35,882
Contingent rents	3,871	2,812	2,660
Total rental income	\$41,234	\$38,149	\$38,542
Net rental expense:			
Base rents	\$963	\$4,941	\$6,693
Contingent rents	1,891	2,763	1,714
Net rental expense	\$2,854	\$7,704	\$8,407

Note 10. Fair Value of Financial Instruments

Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of December 26, 2012				Valuation Technique
	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)				
Deferred compensation plan investments	\$6,371	\$ 6,371	\$—	\$—	market approach
Interest rate caps	\$8	\$ —	\$8	\$—	income approach
Total	\$6,379	\$ 6,371	\$8	\$—	
	Fair Value Measurements as of December 28, 2011				Valuation Technique
	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)				
Deferred compensation plan investments	\$4,935	\$ 4,935	\$—	\$—	market approach
Total	\$4,935	\$ 4,935	\$—	\$—	

In addition to the financial assets and liabilities that are measured at fair value on a recurring basis, we measure certain assets and liabilities at fair value on a nonrecurring basis. As of December 26, 2012 and December 28, 2011, impaired assets related to underperforming restaurants were written down to a fair value of \$0.2 million and \$0.0 million, respectively, based on the income approach.

Disclosures of Fair Value of Other Assets and Liabilities

The liabilities under our credit facility and capital leases are carried at historical cost in our Consolidated Balance Sheets. As of December 26, 2012, the estimated fair values of our senior secured term loan and capital lease obligations approximated their carrying values. As of December 28, 2011, the estimated fair value of our senior secured term loan and capital lease obligations was \$220.1 million, as compared with the book value of \$220.6 million. The difference relates to market quotations for our senior secured term loan.

Note 11. Long-Term Debt

Long-term debt consisted of the following:

	December 26, 2012 (In thousands)	December 28, 2011
Term loans due April 12, 2017	\$170,000	\$—
Term loans due September 30, 2016	—	198,000
Other note payable, maturing 1/1/2013, payable in monthly installments with an interest rate of 9.17%	—	99
Capital lease obligations	20,134	22,457
Total long-term debt	190,134	220,556
Unamortized discount	—	(2,251)
Total long-term debt, net	190,134	218,305
Less current maturities and mandatory prepayments	12,681	6,971
Noncurrent portion of long-term debt	\$177,453	\$211,334

Aggregate annual maturities of long-term debt, excluding capital lease obligations (see Note 9), at December 26, 2012 are as follows:

	(In thousands)
2013	\$8,500
2014	23,750
2015	14,250
2016	19,000
2017 and thereafter	104,500
Total long-term debt, excluding capital lease obligations	\$170,000

The differences in the annual maturities for 2014 and 2015 result from the payment falling due during the 53rd week of fiscal 2014.

On April 12, 2012, Denny's Corporation and certain of its subsidiaries refinanced our credit facility (the "Old Credit Facility") and entered into a new five-year senior secured credit agreement in an aggregate principal of \$250 million (the "New Credit Facility"). The New Credit Facility is comprised of a \$190 million senior secured term loan and a \$60 million senior secured revolver (with a \$30 million letter of credit sublimit). A commitment fee of 50 basis points was initially paid on the unused portion of the revolving credit facility. Borrowings for the term loan bear a tiered interest rate based on the company's consolidated leverage ratio and was initially set at LIBOR plus 300 basis points. The New Credit Facility does not contain an interest rate floor for either the term loan or the revolver. It includes an accordion feature that would allow us to increase the size of the facility to \$300 million. The maturity date for the New Credit Facility is April 12, 2017.

The New Credit Facility was used to refinance the Old Credit Facility and is available for working capital, capital expenditures and other general corporate purposes. The New Credit Facility is guaranteed by Denny's Corporation and its material subsidiaries and is secured by substantially all of the assets of Denny's Corporation and its subsidiaries, including the stock of the company's subsidiaries. It includes negative covenants that are usual for facilities and transactions of this type. The New Credit Facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charged coverage ratio and maximum capital expenditures.

The term loan under the New Credit Facility amortizes \$19.0 million annually, payable in quarterly installments, with all remaining amounts due on the maturity date. We will be required to make certain mandatory prepayments under certain circumstances and will have the option to make certain prepayments under the New Credit Facility. The optional prepayments can be applied against future amortization. The New Credit Facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are usual for facilities and transactions of this type.

On April 13, 2012, we entered into interest rate hedges that cap the LIBOR rate on borrowings for the term loan under the New Credit Facility during the first two years of the term loan. The 200 basis point LIBOR cap applies to \$150 million of term loan borrowings during the first year and \$125 million of term loan borrowings during the second year.

As a result of the debt refinancing, we recorded \$7.9 million of losses on early extinguishment of debt, consisting of \$1.2 million of transaction costs, \$4.7 million from the write-off of deferred financing costs and \$2.0 million from the write-off of an original issue discount ("OID") related to the Old Credit Facility. These losses are included as a component of other nonoperating expense in the Consolidated Statements of Income.

As of December 26, 2012, we had outstanding term loan borrowings under the New Credit Facility of \$170.0 million and outstanding letters of credit under the revolving letter of credit facility of \$25.2 million. There were no revolving loans outstanding at December 26, 2012. These balances resulted in availability of \$34.8 million under the revolving facility. The weighted-average interest rate under the term loan was 2.97% and 5.25%, as of December 26, 2012 and December 28, 2011.

In March 2012, prior to the April 12, 2012 refinancing, we paid \$8.0 million (consisting of \$7.4 million of prepayments and \$0.6 million of scheduled payments) on the term loan under the Old Credit Facility. As a result of these prepayments, during the year ended December 26, 2012, we recorded \$0.2 million of losses on early extinguishment of debt resulting from the write-off of \$0.1 million in deferred financing costs and \$0.1 million in OID related to the Old Credit Facility. These losses are included as a component of other nonoperating expense in our Consolidated Statements of Income.

Subsequent to the April 12, 2012 refinancing, we paid \$20.0 million (consisting of \$5.8 million of prepayments and \$14.3 million of scheduled payments, including the \$4.7 million payment due December 31, 2012, subsequent to our fiscal year-end) on the term loan under the New Credit Facility. In accordance with the debt covenants, the reduction in term loan debt resulted in a decrease in the interest rate and the commitment fee rate. The interest rate is currently set at LIBOR plus 275 basis points and the commitment fee was reduced to 37.5 basis points.

Note 12. Employee Benefit Plans

We maintain several defined benefit plans which cover a substantial number of employees. Benefits are based upon each employee's years of service and average salary. Our funding policy is based on the minimum amount required under the Employee Retirement Income Security Act of 1974. Our pension plan was closed to new participants as of December 31, 1999. Benefits ceased to accrue for pension plan participants as of December 31, 2004. We also maintain defined contribution plans.

Defined Benefit Plans

The obligations and funded status for our pension plan and other defined benefit plans were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 26, 2012	December 28, 2011	December 26, 2012	December 28, 2011
	(In thousands)			
Change in Benefit Obligation:				
Benefit obligation at beginning of year	\$70,468	\$63,125	\$2,689	\$2,493
Service cost	380	335	—	—
Interest cost	3,200	3,364	116	127
Actuarial losses	4,575	7,160	227	264
Benefits paid	(4,697)	(3,516)	(195)	(195)
Benefit obligation at end of year	\$73,926	\$70,468	\$2,837	\$2,689
Accumulated benefit obligation	\$73,926	\$70,468	\$2,837	\$2,689
Change in Plan Assets:				
Fair value of plan assets at beginning of year	\$53,270	\$53,580	\$—	\$—
Actual return on plan assets	6,666	1,341	—	—
Employer contributions	2,767	1,865	195	195
Benefits paid	(4,697)	(3,516)	(195)	(195)
Fair value of plan assets at end of year	\$58,006	\$53,270	\$—	\$—
Funded status	\$(15,920)	\$(17,198)	\$(2,837)	\$(2,689)

The amounts recognized in the Consolidated Balance Sheets were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 26, 2012	December 28, 2011	December 26, 2012	December 28, 2011
	(In thousands)			
Other current liabilities	\$—	\$—	\$(341)	\$(338)
Other noncurrent liabilities and deferred credits	(15,920)	(17,198)	(2,496)	(2,351)
Net amount recognized	\$(15,920)	\$(17,198)	\$(2,837)	\$(2,689)

The amounts recognized in accumulated other comprehensive income, that have not yet been recognized as a component of net periodic benefit cost, were as follows:

	Pension Plan		Other Defined Benefit Plans	
	December 26, 2012	December 28, 2011	December 26, 2012	December 28, 2011
	(In thousands)			
Unamortized actuarial losses, net	\$(27,798)	(27,596)	(1,007)	(832)

During fiscal 2013, \$1.7 million and less than \$0.1 million of accumulated other comprehensive income will be recognized related to the pension plan and other defined benefit plans, respectively.

The components of the change in unamortized actuarial losses, net, included in accumulated other comprehensive loss were as follows:

	Fiscal Year Ended	
	December 26, 2012	December 28, 2011
	(In thousands)	
Pension Plan:		
Balance, beginning of year	\$(27,596	) \$(18,599
Benefit obligation actuarial loss	(4,575	) (7,160
Net gain (loss)	2,610	(2,841
Amortization of net loss	1,763	1,004
Balance, end of year	\$(27,798	) \$(27,596
Other Defined Benefit Plans:		
Balance, beginning of year	\$(832	) \$(600
Benefit obligation actuarial loss	(227	) (264
Amortization of net loss	52	32
Balance, end of year	\$(1,007	) \$(832

Minimum pension liability adjustments, net of tax for 2012, 2011 and 2010 were additions of \$0.2 million, \$5.6 million and \$1.2 million, respectively.

Total minimum pension liability adjustments of \$25.0 million (net of tax of \$3.8 million) and \$24.8 million (net of tax of \$3.6 million) are included as a component of accumulated other comprehensive loss, net in our Consolidated Statement of Shareholders' Deficit for the years ended December 26, 2012 and December 28, 2011, respectively.

The components of net periodic benefit cost were as follows:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Pension Plan:			
Service cost	\$380	\$335	\$375
Interest cost	3,200	3,364	3,431
Expected return on plan assets	(4,057	) (4,182	) (3,928
Amortization of net loss	1,763	1,004	915
Net periodic benefit cost	\$1,286	\$521	\$793
Other comprehensive loss	\$202	\$8,997	\$1,050
Other Defined Benefit Plans:			
Interest cost	\$116	\$127	\$138
Amortization of net loss	52	32	22
Net periodic benefit cost	\$168	\$159	\$160
Other comprehensive loss	\$175	\$232	\$103

Net pension and other defined benefit plan costs (including premiums paid to the Pension Benefit Guaranty Corporation) for 2012, 2011 and 2010 were \$1.5 million, \$0.7 million and \$1.0 million, respectively.

Assumptions

Because our pension plan was closed to new participants as of December 31, 1999 and benefits ceased to accrue for Pension Plan participants as of December 31, 2004, an assumed rate of increase in compensation levels was not applicable for 2012, 2011 or 2010. Weighted-average assumptions used to determine benefit obligations were as follows:

	December 26, 2012	December 28, 2011
Discount rate	4.18	4.59
Measurement date	12/26/2012	12/28/2011

Weighted-average assumptions used to determine net periodic pension cost were as follows:

	December 26, 2012	December 28, 2011	December 29, 2010
Discount rate	4.59	5.42	5.99
Rate of increase in compensation levels	N/A	N/A	N/A
Expected long-term rate of return on assets	7.75	8.00	8.00
Measurement date	12/26/2012	12/28/2011	12/29/2010

In determining the expected long-term rate of return on assets, we evaluated our asset class return expectations, as well as long-term historical asset class returns. Projected returns are based on broad equity and bond indices. Additionally, we considered our historical compounded returns, which have been in excess of our forward-looking return expectations. In determining the discount rate, we have considered long-term bond indices of bonds having similar timing and amounts of cash flows as our estimated defined benefit payments. We use a yield curve based on high quality, long-term corporate bonds to calculate the single equivalent discount rate that results in the same present value as the sum of each of the plan's estimated benefit payments discounted at their respective spot rates.

Plan Assets

The investment policy of our pension plan is based on an evaluation of our ability and willingness to assume investment risk in light of the financial and benefit-related goals objectives deemed to be prudent by the fiduciaries of our pension plan assets. These objectives include, but are not limited to, earning a rate of return over time to satisfy the benefit obligation, managing funded status volatility, and maintaining sufficient liquidity. As of December 26, 2012, the strategic target asset allocation is 60% equity securities (diversified between domestic and international holdings) and 40% fixed income securities (diversified between corporate and government holdings and generally long duration).

We review the strategic asset allocation periodically to determine the appropriate balance between cost and risk, taking into account the regulatory funding requirements and the nature of our pension plan's liabilities. We monitor the competitive performance versus market benchmarks and rebalance to target allocations if necessary on a quarterly basis.

The fair values of our pension plan assets were as follows:

Asset Category	Fair Value Measurements as of December 26, 2012			
	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Cash equivalents	\$873	\$873	\$—	\$—
Equity securities:				
U.S. large-cap (a)	15,569	15,569	—	—
U.S. mid-cap (b)	4,702	4,702	—	—
U.S. small-cap (c)	1,157	1,157	—	—
International large-cap	9,292	9,292	—	—
Fixed income securities:				
U.S. Treasuries	2,582	2,582	—	—
Corporate bonds (d)	20,179	20,179	—	—
Other types of investments:				
Commingled funds (e)	3,652	—	3,652	—
Total	\$58,006	\$54,354	\$3,652	\$—

The majority of this category represents a fund with the objective of approximating the return of the S&P 500 (a) Index. The remaining securities include both a large-value fund and a large-growth fund investing in diverse industries.

(b) This category includes both a mid-growth fund with the objective of outperforming the Russell Mid Cap Growth Index and a mid-value fund investing in diverse industries.

(c) This category includes both a small-value fund and a small-growth fund investing in diverse industries.

(d) This category includes intermediate and long-term investment grade bonds from diverse industries.

(e) This category represents a fund of well diversified mutual funds with the objective of providing a low-volatility means to access equity-like returns.

Asset Category	Fair Value Measurements as of December 28, 2011			
	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
Cash equivalents	\$611	\$611	\$—	\$—
Equity securities:				
U.S. large-cap (a)	14,208	14,208	—	—
U.S. mid-cap (b)	4,371	4,371	—	—
U.S. small-cap (c)	1,046	1,046	—	—
International large-cap	8,440	8,440	—	—
Fixed income securities:				
U.S. Treasuries	2,375	2,375	—	—
Corporate bonds (d)	18,849	18,849	—	—
Other types of investments:				
Commingled funds (e)	3,370	—	3,370	—
Total	\$53,270	\$49,900	\$3,370	\$—

The majority of this category represents a fund with the objective of approximating the return of the S&P 500 (a) Index. The remaining securities include both a large-value fund and a large-growth fund investing in diverse industries.

(b) This category includes both a mid-growth fund with the objective of outperforming the Russell Mid Cap Growth Index and a mid-value fund investing in diverse industries.

(c) This category includes both a small-value fund and a small-growth fund investing in diverse industries.

(d) This category includes intermediate and long-term investment grade bonds from diverse industries.

(e) This category represents a fund of well diversified mutual funds with the objective of providing a low-volatility means to access equity-like returns.

Following is a description of the valuation methodologies used for assets measured at fair value.

Equity Securities and Fixed Income Securities: Valued at the net asset value (“NAV”) of shares held by the pension plan at year-end. The NAV is a quoted price in an active market.

Cash Equivalents and Commingled Funds: Valuation determined by the trustee of the money market funds and commingled funds based on the fair value of the underlying securities within the fund, which represent the NAV, a practical expedient to fair value, of the units held by the pension plan at year-end.

Contributions and Expected Future Benefit Payments

We made contributions of \$2.8 million and \$1.9 million to our qualified pension plan during the years ended December 26, 2012 and December 28, 2011, respectively. We made contributions of \$0.2 million and \$0.2 million to our other defined benefit plans during the years ended December 26, 2012 and December 28, 2011. We expect to contribute \$2.8 million and \$0.3 million to our qualified pension plan and other defined benefit plans, respectively, during 2013. Benefits expected to be paid for each of the next five years and in the aggregate for the five fiscal years from 2018 through 2022 are as follows:

	Pension Plan	Other Defined Benefit Plans
	(In thousands)	
2013	\$3,489	\$341
2014	3,442	296
2015	3,377	220
2016	3,357	189
2017	3,381	238
2018 through 2022	19,162	1,073

Defined Contribution Plans

Eligible employees can elect to contribute up to 15% of their compensation to our 401(k) plan. As a result of certain IRS limitations, participation in a non-qualified deferred compensation plan is offered to certain employees. Under this deferred compensation plan, participants are allowed to defer up to 50% of their annual salary and up to 100% of their incentive compensation. Under both plans, we make matching contributions of up to 3% of compensation. Participants in the deferred compensation plan are eligible to participate in the 401(k) plan; however, due to the above referenced IRS limitations, they are not eligible to receive the matching contributions under the 401(k) plan. Under these plans, we made contributions of \$1.3 million, \$1.3 million and \$1.4 million for 2012, 2011 and 2010, respectively.

Note 13. Income Taxes

The provisions for income taxes were as follows:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Current:			
Federal	\$875	\$—	\$—
State, foreign and other	1,148	1,919	1,058
Deferred:			
Federal	9,683	2,879	235
State, foreign and other	1,740	344	88
Provision for income taxes before release of valuation allowance	13,446	5,142	1,381
Release of valuation allowance	(661	) (89,102) —
Total provision for (benefit from) income taxes	\$12,785	\$(83,960	) \$1,381

As of December 29, 2010, we had a full valuation allowance against certain of our deferred tax assets, consisting primarily of net operating loss carryforwards, temporary differences and state and general business credits. Based upon our operating results over recent years, as well as an assessment of our expected future results of operations, during the year ended December 28, 2011, we determined that it is more likely than not that certain of our deferred tax assets will be utilized. As a result, we released the majority of our valuation allowance, recognizing a tax benefit of \$89.1 million. The release of our valuation allowance was determined in accordance with the provisions of ASC 740, which require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Of the valuation allowance remaining, approximately \$2.0 million, if released, will be credited directly to paid-in capital.

It is more likely than not that we will be able to utilize most of our federal net operating loss and credit carryforwards prior to expiration. In addition, it is more likely than not we will be able to utilize all of our existing temporary differences and a portion of our state tax net operating losses and state tax credit carryforwards prior to their expiration.

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The reconciliation of income taxes at the U.S. federal statutory tax rate to our effective tax rate was as follows:

	December 26, 2012	December 28, 2011	December 29, 2010
Statutory provision rate	35	% 35	% 35
State, foreign, and other taxes, net of federal income tax benefit	5	6	3
Wage addback (deductions) on income tax credits earned (expired), net	2	(4	) (9
Portion of net operating losses, temporary differences and unused income tax credits resulting from the valuation allowance	—	—	(24
General business credits generated	(7	) (14) —
Other	3	(4	) 1
	38	% 19	% 6
Release of valuation allowance	(2	) (315) —
Effective tax rate	36	% (296	)% 6

During the years ended December 26, 2012, December 28, 2011 and December 29, 2010, the statutory provision rate included reductions of 2%, 315% and 24%, respectively, principally related to the reversal or change of valuation allowances associated with the utilization of net operating losses, temporary differences and alternative minimum tax credits. Specifically, during 2012, we recorded a benefit of \$0.7 million. During 2011, we recorded a benefit of \$89.1 million related to the release of the majority of the valuation allowance. During fiscal 2010, we recorded a \$1.1 million, or 5%, increase in the valuation allowance related to net operating losses, a \$7.2 million, or 30%, reduction in the valuation allowance related to temporary differences and a \$0.3 million, or 1%, increase in the valuation allowance related to other items.

Also during 2012, we recorded a \$1.7 million out-of-period discrete tax adjustment related to the reversal of a portion of the income tax benefit recorded in fourth quarter of 2011. This out-of-period adjustment was not material to any prior or current year financial statements or on earnings trends. In addition, a \$1.6 million tax benefit was recorded in 2012 relating to additional state credits generated during 2012 from prior years' activity.

The following table represents the approximate tax effect of each significant type of temporary difference that resulted in deferred income tax assets or liabilities.

	December 26, 2012 (In thousands)	December 28, 2011
Deferred tax assets:		
Self-insurance accruals	\$9,314	\$10,048
Capitalized leases	3,023	3,577
Accrued exit cost	2,158	2,260
Fixed assets	10,707	13,508
Pension, other retirement and compensation plans	14,778	17,145
Other accruals	1,050	—
Future deductions on expired wage based credits	—	1,535
Alternative minimum tax credit carryforwards	12,948	12,409
General business credit carryforwards - state and federal	35,105	35,769
Net operating loss carryforwards - state	13,398	24,587
Net operating loss carryforwards - federal	—	5,371
Total deferred tax assets before valuation allowance	102,481	126,209
Less: valuation allowance	(12,860)	(22,700)
Total deferred tax assets	89,621	103,509
Deferred tax liabilities:		
Intangible assets	(23,818)	(24,610)
Deferred finance costs	(220)	(2,583)
Other assets	—	(161)
Total deferred tax liabilities	(24,038)	(27,354)
Net deferred tax asset	\$65,583	\$76,155
Net deferred tax assets are classified as follows:		
Current	\$19,807	\$15,519
Noncurrent	45,776	60,636
Total	\$65,583	\$76,155

At December 26, 2012, we had available, on a consolidated basis, federal general business credit carryforwards of approximately \$37.2 million, most of which expire between 2019 and 2032, and alternative minimum tax ("AMT") credit carryforwards of approximately \$12.9 million, which never expire. We also had available regular NOL and AMT NOL carryforwards of approximately \$0.5 million and \$117.0 million, respectively, which expire between 2021 and 2030. Approximately \$0.5 million of these net operating loss carryforwards and \$3.7 million of general business credit carryforwards are unrecognized in the schedule above and on our Consolidated Balance Sheets as a result of the application of ASC Paragraph 718-740-25-10, which delays their recognition until they reduce taxes payable.

The South Carolina net operating loss carryforwards represent 73% of the total state net operating loss carryforwards.

Prior to 2005, Denny's had ownership changes within the meaning of Section 382 of the Internal Revenue Code. Because of these changes, the amount of our NOL carryforwards along with any other tax carryforward attribute, for periods prior to the dates of change, are limited to an annual amount which may be increased by the amount of our net unrealized built-in gains at the time of any ownership change recognized in that taxable year. Prior to 2011, a valuation allowance was established for a significant portion of these deferred tax assets since it was our position that it was more likely than not the tax benefit would not be realized from these assets. In conjunction with our ongoing review of our actual results and anticipated future earnings, we reassessed the possibility of releasing a portion or all of the valuation allowance currently in place for our deferred tax assets. Based upon this assessment, a release of the valuation allowance was appropriate as of December 28, 2011. It is our position that any pre-2005 credits or net operating loss carryforwards can be utilized due to the total amount of unrealized built-in gains recognized and annual

limitation accumulated as of December 26, 2012. The occurrence of an additional ownership change could limit our ability to utilize our current net operating losses and income tax credits generated after 2004.

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There were no unrecognized tax benefits as of December 26, 2012, and December 28, 2011. We do not expect the unrecognized tax benefits to increase over the next twelve months. As of and for the years ended December 26, 2012, and December 28, 2011, there were no interest and penalties recognized in our Consolidated Balance Sheets and Consolidated Statements of Income.

We file income tax returns in the U.S. federal jurisdictions and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008. We remain subject to examination for U.S. federal taxes for 2010, 2011 and 2012 and in the following major state jurisdictions: California (2008-2012); Florida (2010-2012) and Texas (2008-2012).

Note 14. Share-Based Compensation

Share-Based Compensation Plans

We maintain four share-based compensation plans (the Denny's Corporation 2012 Omnibus Incentive Plan (the "2012 Omnibus Plan"), Denny's Corporation 2008 Omnibus Incentive Plan (the "2008 Omnibus Plan"), the Denny's Corporation Amended and Restated 2004 Omnibus Incentive Plan (the "2004 Omnibus Plan"), and the Denny's, Inc. Omnibus Incentive Compensation Plan for Executives) under which stock options and other awards granted to our employees and directors are outstanding.

The 2012 Omnibus Plan is used to grant share-based compensation to selected employees, officers and directors of Denny's and its affiliates. However, we reserve the right to pay discretionary bonuses, or other types of compensation, outside of these plans. There were originally 4.5 million shares reserved for issuance under the 2012 Omnibus Plan, plus a number of additional shares (not to exceed 1.5 million) underlying awards that were outstanding prior to the adoption of the 2012 Omnibus Plan pursuant to our other plans which thereafter cancel, terminate or expire unexercised for any reason. The 2008 Omnibus Plan and the 2004 Omnibus Plan will no longer be used to grant share-based compensation awards. There were originally 4.5 million shares reserved for issuance under the 2008 Omnibus Plan. There were originally 10.0 million shares reserved for issuance under the 2004 Omnibus Plan. During 2010, we registered 1.5 million shares to be issued outside of these plans pursuant to the grant or exercise of employment inducement awards of stock options and restricted stock units in accordance with NASDAQ Listing Rule 5635(c)(4). During 2011 and 2010, a portion of these shares were used to grant options and restricted stock awards to our new Chief Executive Officer, Chief Operating Officer and Chief Marketing Officer.

The Compensation and Incentives Committee of our Board of Directors, or our Board of Directors as a whole, has sole discretion to determine the terms and conditions of awards granted under such plans. Under the terms of options granted under the above referenced plans, generally, optionees who terminate for any reason other than cause, disability, retirement or death will be allowed 60 days after the termination date to exercise vested options. Vested options are generally exercisable for one year when termination is by a reason of disability, retirement or death. If termination is for cause, no option shall be exercisable after the termination date.

Share-Based Compensation Expense

Total share-based compensation expense included as a component of net income was as follows:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Stock options	\$909	\$1,069	\$1,072
Restricted stock units	2,050	2,369	1,451

Board deferred stock units	537	781	317
Total share-based compensation	\$3,496	\$4,219	\$2,840

Stock Options

Options granted to date generally vest evenly over 3 years, have a 10-year contractual life and are issued at the market value at the date of grant.

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The following table summarizes information about stock options outstanding and exercisable at December 26, 2012:

	Options (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Outstanding, beginning of year	4,140	\$ 3.15		
Granted	—	—		
Exercised	(843	) 2.59		
Forfeited	(161	) 3.52		
Expired	(37	) 4.02		
Outstanding, end of year	3,099	3.28	5.33	\$4,802
Exercisable, end of year	2,394	3.22	4.59	\$3,870

The aggregate intrinsic value represents the difference between the market price of our stock on December 26, 2012 and the exercise price, multiplied by the number of options that have an exercise price that is less than the market price of our stock. The aggregate intrinsic value of the options exercised was \$1.7 million, \$3.6 million and \$5.6 million during the years ended December 26, 2012, December 28, 2011 and December 29, 2010, respectively.

There were no options granted during the year ended December 26, 2012. The weighted-average fair value per option of options granted during the years ended December 28, 2011 and December 29, 2010 was \$1.98 and \$1.31, respectively.

At December 26, 2012 and December 28, 2011, approximately \$19.3 million and \$17.4 million, respectively, was included as a component of additional paid-in-capital in our Consolidated Balance Sheet related to stock options. As of December 26, 2012, we had approximately \$0.6 million of unrecognized compensation cost related to unvested stock option awards granted, which is expected to be recognized over a weighted-average of 0.8 years.

Restricted Stock Units

We primarily grant restricted stock units containing performance conditions. These conditions are generally based on either the Total Shareholder Return of our stock compared with the returns of a group of peer companies or our stock's achievement of certain stock price thresholds. The following table summarizes information about restricted stock units activity:

	Fiscal Year Ended December 26, 2012		December 28, 2011		December 29, 2010	
	Units	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value	Units	Weighted-Average Grant Date Fair Value
	(In thousands, except per share amounts)					
Outstanding, beginning of year	1,276	\$ 3.19	1,450	\$ 2.92	2,009	\$ 3.47
Granted	397	6.05	416	3.99	619	2.29
Vested	(445	) 3.28	(535	) 3.07	(908	) 3.54
Forfeited	(295	) 3.37	(55	) 3.42	(270	) 3.47
Outstanding, end of year	933	4.30	1,276	3.19	1,450	2.92

In February 2012, we granted approximately 0.4 million performance shares and related performance-based target cash awards of \$2.0 million to certain employees. As these awards contain a market condition, a Monte Carlo valuation was used to determine the performance shares' grant date fair value of \$6.05 per share and the payout probability of the target cash awards. The awards granted to our named executive officers also contain a performance condition based on certain operating measures for the fiscal year ended December 26, 2012. The performance period is the three year fiscal period beginning December 29, 2011 and ending December 31, 2014. The performance shares and cash awards will vest and be earned (from 0% to 200% of the target award for each such increment) at the end of the performance period based on the Total Shareholder Return of our stock compared with the Total Shareholder Returns of a group of peer companies. As of December 26, 2012, approximately 0.3 million performance shares and performance-based target cash awards of \$1.6 million were outstanding under this award.

At December 26, 2012, \$0.4 million and \$0.9 million of accrued compensation was included as a component of other current liabilities and other noncurrent liabilities in our Consolidated Balance Sheet, respectively, (based on the fair value of the related shares for the liability classified units as of December 26, 2012) and \$4.1 million was included as a component of additional paid-in capital in our Consolidated Balance Sheet related to the equity classified restricted stock units. At December 28, 2011, \$0.5 million and \$0.3 million of accrued compensation was included as a component of other current liabilities and other noncurrent liabilities in our Consolidated Balance Sheet, respectively, (based on the fair value of the related shares for the liability classified units as of December 28, 2011) and \$4.5 million was included as a component of additional paid-in-capital in our Consolidated Balance Sheet related to the equity classified restricted stock units.

During the year ended December 26, 2012, we made payments of \$1.0 million in cash and issued 0.2 million shares of common stock related to restricted stock unit awards.

As of December 26, 2012, we had \$2.8 million of unrecognized compensation cost related to unvested restricted stock unit awards granted, which is expected to be recognized over a weighted-average of 1.3 years.

Board Deferred Stock Units

During the year ended December 26, 2012, we granted 0.2 million deferred stock units (which are equity classified) with a weighted average grant date fair value of \$4.05 per unit to non-employee members of our Board of Directors. A director may elect to convert these awards into shares of common stock either on a specific date in the future (while still serving as a member of the Board of Directors) or upon termination as a member of the Board of Directors. During the year ended December 26, 2012, less than 0.1 million deferred stock units were converted into shares of common stock. Approximately 0.7 million and 0.5 million of these units were outstanding as of December 26, 2012 and December 28, 2011, respectively. As of December 26, 2012, we had approximately \$0.2 million of unrecognized compensation cost related to all unvested deferred stock unit awards outstanding, which is expected to be recognized over a weighted average of 0.3 years.

Note 15. Net Income Per Share

The net income per share was as follows:

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands, except per share amounts)		
Numerator:			
Net income	\$22,309	\$112,287	\$22,713
Denominator:			
Weighted average shares - basic	94,949	97,646	98,902
Effect of dilutive securities:			
Options	883	942	1,302
Restricted stock units and awards	922	1,000	1,187
Weighted average shares - diluted	96,754	99,588	101,391
Basic net income per share	\$0.23	\$1.15	\$0.23
Diluted net income per share	\$0.23	\$1.13	\$0.22
Stock options excluded (1)	418	2,150	2,238
Restricted stock units and awards excluded (1)	330	735	450

(1) Excluded from diluted weighted-average shares outstanding as the impact would be antidilutive.

Note 16. Share Repurchases

Our Old Credit Facility permitted and our New Credit Facility permits the payment of cash dividends and the purchase of Denny's Corporation Common Stock subject to certain limitations. Over the past several years, our Board of Directors has approved share repurchase programs authorizing us to repurchase up to a set amount of shares of our Common Stock. Under the programs, we could, from time to time, purchase shares in the open market (including pre-arranged stock trading plans in accordance with guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934) or in privately negotiated transactions, subject to market and business conditions.

During 2012, 2011 and 2010, the Board approved share repurchase programs for 6.0 million, 6.0 million and 3.0 million shares, respectively. During 2012, 2011 and 2010, we repurchased 4.8 million, 5.7 million and 1.0 million shares for a total of \$22.2 million, \$21.6 million and \$3.9 million, respectively, thus completing the 2010 and 2011 repurchase programs. As of December 26, 2012, there are 3.5 million shares remaining to be repurchased under the 2012 repurchase program.

Repurchased shares are included as treasury stock in the Consolidated Balance Sheets and the Consolidated Statements of Shareholders' Deficit.

Note 17. Commitments and Contingencies

Through 2011, we converted a total of 123 former Flying J restaurant sites to Denny's. We are not party to the individual leases or debt agreements related to the restaurants operated by franchisees. However, we have guaranteed up to \$2.0 million of lease payments to Pilot Flying J during the first five years of the related leases. Additionally, we have guaranteed a limited amount of debt payments to lenders under certain loan pools through the term of the related loans, which is generally five years. There were \$7.2 million and \$15.5 million of loans outstanding under the loan pools as of December 26, 2012 and December 28, 2011, respectively. Payments under these guarantees would result from the inability of a franchisee to fund required payments when due. Through December 26, 2012, no events had occurred that caused us to make payments under the guarantees. As of December 26, 2012, the maximum amounts payable under the lease guarantee and loan guarantees were \$2.0 million and \$0.9 million, respectively. As a result of these guarantees, we have recorded liabilities of approximately \$0.1 million and \$0.2 million, as of December 26, 2012 and December 28, 2011, respectively, which are included as a component of other noncurrent liabilities and deferred credits in our Consolidated Balance Sheet and other nonoperating expense in our Consolidated Statement of Income.

We have arranged a new loan program to support domestic growth. This program provides up to \$100 million in loans to new and existing franchisees that open new restaurants in under-penetrated markets. We will guarantee up to the lesser of \$12 million or 12% of the total outstanding loans under the program. Payments under this guarantee would result from the inability of a franchisee to fund required payments when due. There were no loans outstanding under this program as of December 26, 2012 and December 28, 2011, respectively.

There are various claims and pending legal actions against or indirectly involving us, incidental to and arising out of the ordinary course of the business. In the opinion of management, based upon information currently available, the ultimate liability with respect to these proceedings and claims will not materially affect the Company's consolidated results of operations or financial position. We record legal settlement costs as other operating expenses in our Consolidated Statements of Income as those costs are incurred.

We have amounts payable under purchase contracts for food and non-food products. Many of these agreements do not obligate us to purchase any specific volumes and include provisions that would allow us to cancel such agreements with appropriate notice. Our future commitments for both company and franchise restaurants at December 26, 2012 under these contracts consist of the following:

	Purchase Obligations (In thousands)
Payments due by period:	
Less than 1 year	\$164,443
1-2 years	10,225
3-4 years	3,834
5 years and thereafter	—
Total	\$178,502

For agreements with cancellation provisions, amounts included in the table above represent our estimate of purchase obligations during the periods presented if we were to cancel these contracts with appropriate notice. We would likely take delivery of goods under such circumstances.

Note 18. Supplemental Cash Flow Information

	Fiscal Year Ended		
	December 26, 2012	December 28, 2011	December 29, 2010
	(In thousands)		
Income taxes paid, net	\$2,034	\$1,124	\$850
Interest paid	\$12,918	\$21,350	\$25,277
Noncash investing and financing activities:			
Notes received in connection with disposition of property	\$290	\$500	\$200
Accrued purchase of property	\$1,570	\$351	\$1,953
Issuance of common stock, pursuant to share-based compensation plans	\$1,151	\$1,685	\$1,511
Execution of capital leases	\$2,643	\$4,037	\$3,480
Treasury stock payable	\$560	\$—	\$—
Accrued deferred financing costs	\$—	\$—	\$255

Note 19. Related Party Transactions

We have sold company restaurants to franchisees that are former employees, including former officers. We received cash proceeds of \$0.5 million, \$0.3 million and \$1.5 million from these related party sales during 2012, 2011 and 2010, respectively. We recognized a loss of \$0.2 million, and gains of \$0.2 million and \$1.3 million from these related party sales during 2012, 2011 and 2010, respectively. In relation to these sales, we may enter into leases or subleases with the franchisees at normal market rates.

Note 20. Quarterly Data (Unaudited)

The results for each quarter include all adjustments which, in our opinion, are necessary for a fair presentation of the results for interim periods. All adjustments are of a normal and recurring nature.

Selected consolidated financial data for each quarter of fiscal 2012 and 2011 are set forth below:

	Fiscal Year Ended December 26, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Company restaurant sales	\$94,163	\$91,239	\$86,575	\$81,733
Franchise and licensing revenue	32,575	33,492	34,370	34,216
Total operating revenue	126,738	124,731	120,945	115,949
Total operating costs and expenses	112,825	105,732	109,255	104,162
Operating income	\$13,913	\$18,999	\$11,690	\$11,787
Net income	\$5,865	\$4,601	\$5,363	\$6,480
Basic net income per share (a)	\$0.06	\$0.05	\$0.06	\$0.07
Diluted net income per share (a)	\$0.06	\$0.05	\$0.06	\$0.07

(a) Per share amounts do not necessarily sum to the total year amounts due to changes in shares outstanding and rounding.

	Fiscal Year Ended December 28, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Company restaurant sales	\$104,555	\$104,021	\$104,659	\$98,360
Franchise and licensing revenue	31,250	31,832	32,023	31,834
Total operating revenue	135,805	135,853	136,682	130,194
Total operating costs and expenses	124,311	122,146	122,715	118,388
Operating income	\$11,494	\$13,707	\$13,967	\$11,806
Net income	\$4,124	\$8,130	\$7,985	\$92,048
Basic net income per share (a)	\$0.04	\$0.08	\$0.08	\$0.96
Diluted net income per share (a)	\$0.04	\$0.08	\$0.08	\$0.94

(a) Per share amounts do not necessarily sum to the total year amounts due to changes in shares outstanding and rounding.

The fluctuation in net income during the fourth quarter of 2011 resulted from the release of the majority of the valuation allowance on our deferred tax assets. The other fluctuations in net income during the fiscal 2012 and 2011 quarters relate primarily to the timing of the sale of company restaurants to franchisees.

Note 21. Subsequent Events

We performed an evaluation of subsequent events and determined that no events required disclosure.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 11, 2013

DENNY'S CORPORATION

BY:

/s/ F. Mark Wolfinger
F. Mark Wolfinger
Executive Vice President,
Chief Administrative Officer and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John C. Miller (John C. Miller)	Chief Executive Officer, President and Director (Principal Executive Officer)	March 11, 2013
/s/ F. Mark Wolfinger (F. Mark Wolfinger)	Executive Vice President, Chief Administrative Officer, Chief Financial Officer and Director (Principal Financial Officer)	March 11, 2013
/s/ Jay C. Gilmore (Jay C. Gilmore)	Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 11, 2013
/s/ Debra Smithart-Oglesby (Debra Smithart-Oglesby)	Director and Chair of the Board of Directors	March 11, 2013
/s/ Gregg R. Dedrick (Gregg R. Dedrick)	Director	March 11, 2013
/s/ José M. Gutiérrez (José M. Gutiérrez)	Director	March 11, 2013
/s/ George W. Haywood (George W. Haywood)	Director	March 11, 2013
/s/ Brenda J. Lauderback (Brenda J. Lauderback)	Director	March 11, 2013
/s/ Robert E. Marks (Robert E. Marks)	Director	March 11, 2013
/s/ Louis P. Neeb (Louis P. Neeb)	Director	March 11, 2013
/s/ Donald C. Robinson (Donald C. Robinson)	Director	March 11, 2013
/s/ Laysha Ward (Laysha Ward)	Director	March 11, 2013