SANFILIPPO JOHN B & SON INC
Form 10-K/A
December 15, 2006

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A

(Mark One)

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

For the fiscal year ended June 29, 2006

o **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	**36-2419677**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2299 Busse Road
Elk Grove Village, Illinois 60007
(Address of Principal Executive Offices, Zip Code)

Registrant s telephone number, including area code: (847) 593-2300

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.01 par value per share
(Title of Class)

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

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 o No þ.

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 o No þ.

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 þ.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

The aggregate market value of the voting Common Stock held by non-affiliates was $103,123,862 as of December 29, 2005 (7,975,550 shares at $12.93 per share).

As of September 27, 2006, 8,112,099 shares of the Company s Common Stock, $.01 par value (Common Stock), including 117,900 treasury shares, and 2,597,426 shares of the Company s Class A Common Stock, $.01 par value (Class A Stock), were outstanding.

Documents Incorporated by Reference:
Portions of the Company s definitive Proxy Statement for its Annual Meeting of Stockholders held on November 6, 2006 are incorporated by reference into Part III of this Report.

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EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K for the year ended June 29, 2006 of John B. Sanfilippo & Son, Inc. (the Company), is being filed to restate the Company s Consolidated Financial Statements as of and for the year ended June 29, 2006 for the following accounting matters detailed in Note 1 to the consolidated financial statements: The Company is restating its consolidated balance sheet to reclassify certain Long-term Debt as Current Maturities of Long-term Debt, as the Company previously disclosed in its Current Report on Form 8-K filed on November 22, 2006. Additionally, the Company s Consolidated Financial Statements have been restated (i) to record a goodwill impairment loss, (ii) to record a valuation allowance related to state net operating loss carryforwards, (iii) to consolidate variable interest entities, and (iv) to disclose management s plans regarding going concern.

In connection with the restatement, the following items of the Company s Annual Report on Form 10-K have been amended:

(i) Part I, Item 1. Business

(ii) Part I, Item 1A. Risk Factors

(iii) Part II, Item 6. Selected Financial Data

(iv) Part II, Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations

(v) Part II, Item 8. Consolidated Financial Statements and Supplementary Data

(vi) Part II, Item 9A. Controls and Procedures

(vii) Part IV, Item 15. Exhibits and Financial Statement Schedules

(viii) All internal cross-references have been updated accordingly

With the exception of the foregoing, no other information in the Company s Annual Report on Form 10-K filed on September 27, 2006 has been supplemented, updated or amended and the information contained herein does not reflect any events that have occurred after the 2006 Form 10-K was filed. Pursuant to Rule 12b-15 under the Exchange Act, the complete text of each amended item is set forth below.

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PART I

Item 1 Business

a. General Development of Business

(i) Background

John B. Sanfilippo & Son, Inc. (the Company) was incorporated 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 term Company refers collectively to John B. Sanfilippo & Son, Inc., JBSS Properties, LLC and JBS International, Inc., a previously wholly-owned subsidiary, that was dissolved in November, 2004. The Company s fiscal year ends on the final Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters). Fiscal 2005, however, contained fifty-three weeks, with the fourth quarter containing fourteen weeks. References herein to fiscal 2007 are to the fiscal year that will end June 28, 2007. References herein to fiscal 2006 are to the fiscal year ended June 29, 2006. References herein to fiscal 2005 are to the fiscal year ended June 30, 2005. References herein to fiscal 2004 are to the fiscal year ended June 24, 2004.

The Company is 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 Company s *Fisher, Evon s, Flavor Tree, Sunshine Country, Texas Pride* and *Tom Scott* brand names. The Company also markets and distributes, and in most cases manufactures or processes, a diverse product line of food and snack items, including peanut butter, candy and confections, natural snacks and trail mixes, sunflower seeds, corn snacks, sesame sticks and other sesame snack products.

The Company s Internet website is accessible to the public at *http://www.jbssinc.com.* Information about the Company, including the Company s 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 the Company s Internet website as soon as reasonably practicable after such reports have been filed with the United States Securities and Exchange Commission (the SEC). The Company s 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 the Company files 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.

The Company s headquarters and executive offices are located at 2299 Busse Road, Elk Grove Village, Illinois, 60007, and its telephone number for investor relations is (847) 593-2300, extension 6612.

(ii) Facility Consolidation Project

The Company is in the process of moving its Illinois operations to a central location in Elgin, Illinois. On April 15, 2005, the Company closed on the $48.0 million purchase of a site in Elgin, Illinois (the Current Site). Prior to acquiring the Current Site, the Company engaged in a series of transactions whereby it purchased property that it anticipated using in the facility consolidation project (the Original Site). The Company is currently marketing the Original Site to potential buyers and expects a sale to be consummated in fiscal 2008. The Company is also moving forward with the facility consolidation project on the Current Site. The Current Site includes both an office building and a warehouse. The Company is leasing 41.5% of the office building back to the seller for a three year period, with options for an additional seven years. The remaining portion of the office building may be leased to third parties; however, further capital expenditures, such as for increased parking availability, will be necessary to lease a substantial portion of the remaining space. The 653,302 square foot warehouse was expanded to slightly over 1,000,000 square feet during fiscal 2006 and is being modified to serve as the Company s principal processing and distribution facility and headquarters. The Company transferred its primary Chicago area distribution facility from a leased location to the Current Site in July 2006. Processing operations are scheduled to begin at the Current Site in the second quarter of fiscal 2007, with operations moving from the existing Chicago area locations, and new equipment installed, beginning in the second quarter of fiscal 2007 and continuing on a gradual basis through the end of calendar 2008.

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(iii) Credit Facilities

At the end of fiscal 2006 the Company was a party to an unsecured revolving bank credit facility (the Prior Bank Credit Facility), which was to expire on July 31, 2006 and for which the Company had received a waiver for the default on certain covenants. On July 27, 2006, the Company entered into an amended and restated bank credit facility (the Bank Credit Facility), which replaced the Prior Bank Credit Facility. The Bank Credit Facility provides for $100.0 million in secured borrowings and is comprised of (i) a working capital revolving loan which provides working capital financing of up to $93.6 million in the aggregate, and matures on July 25, 2009, and (ii) a $6.4 million letter of credit maturing on June 1, 2011(the IDB Letter of Credit) to secure the industrial development bonds which financed the construction of a peanut shelling plant in 1987. The Bank Credit Facility also allows for an amendment to increase the total amount of secured borrowings to $125.0 million at the election of the Company, the agent under the facility and one or more of the lenders under the facility. Borrowings under the Bank Credit Facility accrue interest at a rate determined pursuant to a formula based on the agent bank s reference rate, the prime rate and the Eurodollar rate. The interest rate varies depending upon the Company s quarterly financial performance, as measured by the available borrowing base. The Bank Credit Facility also waived all non-compliance with financial covenants under the Prior Bank Credit Facility.

The terms of the Bank Credit Facility include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios (if the borrowing base is below a designated level), restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. The lenders are entitled to require immediate repayment of the Company s obligations under the Bank Credit Facility in the event the Company defaults on payments required under the Bank Credit Facility, non-compliance with the financial covenants, or upon the occurrence of certain other defaults by the Company under the Bank Credit Facility (including a default under the Note Agreement, as defined below).

In order to finance a portion of the Company s facility consolidation project and to provide for the Company s general working capital needs, the Company received $65.0 million pursuant to a Note Purchase Agreement (the Note Agreement) entered into on December 16, 2004 with various lenders.

On July 27, 2006, the Note Agreement was amended to, among other things, increase the interest rate from 4.67% to 5.67% per annum, waive all non-compliance with financial covenants through June 29, 2006, secure the Company s obligations and modify future financial covenants. Additionally, the Company is required to pay an excess leverage fee of up to an additional 1.00% per annum depending upon its leverage ratio and financial performance.

The terms of the Note Agreement include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios, attain minimum quarterly earnings before interest, taxes, depreciation and amortization (EBITDA) levels, restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. The lenders are entitled to require immediate repayment of the Company s obligations under the Note Agreement in the event the Company defaults on payments required under the Note Agreement, non-compliance with the financial covenants, or upon the occurrence of certain other defaults by the Company under the Note Agreement (including a default under the Bank Credit Facility).

When the Company filed its financial statements for the year ended June 29, 2006 on Form 10-K on September 27, 2006, management concluded that $54.2 million of debt related to the Note Agreement was properly classified as Long-term Debt. That determination was based upon, among other things, a forecast (the Forecast) the Company prepared during its first quarter of fiscal 2007 indicating that the Company would be able to attain the minimum EBITDA levels required by the Note Agreement throughout fiscal 2007, as well as satisfy other non-financial covenants contained in the Note Agreement and other borrowing arrangements. The Company did not achieve the minimum quarterly EBITDA covenant for the quarter ended September 28, 2006 by a material amount, which caused the Company to reevaluate the accuracy of the Forecast, the reasonableness of assumptions underlying the Forecast and its related conclusions with respect to expected covenant compliance. The Company determined that the Forecast did not take into consideration information available to the Company in connection with classifying amounts as current and non-current in its June 29, 2006 balance sheet and therefore the balance sheet classification of the

Long-term Debt was not accurate. If such information had been incorporated in the Forecast and considered by management in evaluating the classification of affected debt obligations, the Company would have concluded that the Company would not meet the EBITDA covenant for the first quarter of fiscal 2007 and accordingly the obligations

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pursuant to the Note Agreement would have been classified as Current Maturities of Long-term Debt in the consolidated financial statements as of and for the year ended June 29, 2006.

The Company is uncertain whether it will be able to comply with the covenants and warranties in its various financing arrangements, such as the EBITDA covenant contained in its Note Agreement, in the future. If the Company does not comply with the covenants or warranties in its financing arrangements in the future, the Company will seek waivers from its lenders; however, there can be no assurance that in such case waivers will be received or that such waivers will be on commercially reasonable terms that are not adverse to the Company.

The Company s announcement on November 22, 2006 that the consolidated financial statements in its Form 10-K for fiscal 2006 filed on September 27, 2006 could no longer be relied upon caused a default pursuant to the Company s Note Agreement and Bank Credit Facility. In addition, the Company did not file its quarterly report on Form 10-Q for the quarter ended September 28, 2006 with the Securities and Exchange Commission by the November 27, 2006 deadline required in the Note Agreement, which caused an additional event of default pursuant to the Note Agreement. The Company has received waivers from it lenders for these events of non-compliance. Non-compliance with any future covenant or warranty requirements would allow the lenders to demand immediate payment. If waivers are not received or acceptable terms renegotiated with respect to future non-compliance with covenant or warranty requirements, the Company s ability to pursue its business plans, objectives and its ability to continue as a going concern would be adversely affected.

Obtaining alternative financing for amounts due pursuant to the Note Agreement would allow the Company to eliminate the restrictive EBITDA covenant that the Company did not comply with in the first quarter of fiscal 2007 as well as the related uncertainty as to whether the Company will be able to comply with such covenant in the future. The Company believes it would be able to secure alternative financing for the amounts due pursuant to the Note Agreement through conventional mortgages that do not contain a restrictive EBITDA covenant; however, there can be no assurance that such alternative financing could be obtained, that the new lenders would be willing to negotiate on terms acceptable to the Company, or that the Company would receive the consent for such refinancing required by its Bank Credit Facility. The Bank Credit Facility does not contain a restrictive EBITDA covenant; however, a default under the Note Agreement triggers a default under the Bank Credit Facility. If the Company attempts to secure alternative financing for amounts due under the Note Agreement, it does not anticipate that it would also attempt to secure alternative financing for amounts due pursuant to the Bank Credit Facility. Sustained losses by the Company, the inability to receive waivers from the Company s lenders, if necessary, the inability to secure alternative financing for amounts due pursuant to the Note Agreement, and/or future non-compliance with the covenants or warranties in the Company s Bank Credit Facility and Note Agreement would have a material adverse effect on the Company s financial position, results of operations and cash flows and raises substantial doubt with respect to the Company s ability to continue as a going concern.

(iv) Sales/Leaseback Transactions

In fiscal 2005, in order to facilitate the facility consolidation project, the Company s Board of Directors appointed an independent board committee to explore alternatives with respect to the Company s existing leases for the properties owned by two related party partnerships. After negotiations with the partnerships, the independent committee approved a proposed transaction and, subsequently, the Company entered into various agreements with the partnerships. The agreements provided for an overall transaction whereby: (i) the current related party leases were terminated without penalty to the Company; (ii) the Company sold the portion of the Busse Road property that it owned to the partnerships for $2.0 million; and (iii) the Company sold its Selma, Texas properties to the partnerships for $14.3 million (an estimate of fair value which also slightly exceeds its carrying value) and leased the properties back. The sale price and rental rate for the Selma, Texas properties were determined by an independent appraiser to be at fair market 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. In addition, the Company has an option to repurchase the Selma property 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 sale of the Selma, Texas properties at fair market value to the related party partnerships was consummated during the first quarter of fiscal 2007.

The Company is restating its financial statements for the year ended June 29, 2006 to consolidate variable interest entities (two related party partnerships). The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been restated to consolidate the remaining partnership leasing a facility to the Company as of June 29, 2006. As a result, Current Maturities of

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Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The cumulative effect of this item of $0.5 million was recorded in Cost of Sales in the Statement of Operations for the year ended June 29, 2006.

In March 2006, the Company sold a facility owned by one of its consolidated partnerships, a variable interest entity. As the Company was the primary beneficiary of the partnership, upon consolidation of the partnership the deficit, which includes losses in excess of the minority interest, was absorbed by the Company. Upon sale of the facility by the partnership for a gain, the previously recognized losses attributable to the minority interest of $0.9 million were recovered by the Company to the extent such losses were previously allocated to the Company in consolidation and reduces any gain allocable to the partnership interest. Additionally as the partnership and not the Company was entitled to the net proceeds from the sale, the Company recorded an equal and offsetting minority interest amount for the partnership s gain on the sale of approximately $3.5 million in other income and expense.

Subsequent to year end, the Company sold a facility, a portion of which was owned directly by the Company and the remaining portion owned by one of its consolidated partnerships, a variable interest entity. The related party partnership then sold the property to a third party, which is leasing back the property to the Company for the time period necessary to transition operations to the Current Site.

Also in July 2006, the Company sold its Arlington Heights and Arthur Avenue facilities for a combined $7.8 million in proceeds and is leasing back the facilities from the purchaser. The Arlington Heights facility is being leased back through December 2008 with a three to ninth month renewal option. The Arthur Avenue facility is being leased back through August 2008 with a three to nine month renewal option.

b. Segment Reporting

The Company operates in a single reportable operating segment that consists of selling various nut products procured and processed in a vertically integrated manner through multiple distribution channels.

c. Narrative Description of Business

(i) General

As stated above, the Company is 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, the Company has built a vertically integrated nut processing operation that enables it to control every step of the process, including procurement from growers, shelling, processing, packing and marketing. Vertical integration allows the Company to enhance product quality and to capture additional processing margins. In the past, the Company s vertically integrated business model has worked to its advantage. Vertical integration, however, can under certain circumstances result in poor earnings or losses. See Item 1A Risk Factors. 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 the Company to generate multiple revenue opportunities for the nuts it processes. For example, whole almonds could be sold to food retailers and almond pieces could be sold to industrial users. The Company processes and sells 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 the Company s competitors focus either on fewer nut types or narrower varieties of packaging options. The Company processes all major nut types, thus offering its customers a complete nut product offering. In addition, the Company is less susceptible to any single nut type s price or crop volume swings.

(ii) Principal Products

(A) Raw and Processed Nuts

The Company s principal products are raw and processed nuts. These products accounted for approximately 92.7%, 91.2% and 90.7% of the Company s gross sales for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The nut product line includes peanuts, almonds, Brazil nuts, pecans, pistachios, filberts, cashews, English walnuts, black walnuts, pine nuts and macadamia nuts. The Company s nut products are sold in numerous package styles and sizes, from poly-cellophane packages, composite cans, vacuum packed tins, plastic jars and glass jars for retail sales, to large cases and sacks for bulk sales to industrial, food service and government customers. In addition, the Company offers its nut products in a variety of different styles and seasonings, including natural (with skins), blanched (without skins), oil roasted, dry roasted, unsalted, honey roasted, butter toffee, praline and cinnamon toasted. The

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Company sells its products domestically to retailers and wholesalers as well as to industrial, food service and government customers. The Company also sells certain of its products to foreign customers in the retail, food service and industrial markets.

The Company acquires a substantial portion of its peanut, pecan, almond and walnut requirements directly from domestic growers. The balance of the Company s raw nut supply is purchased from importers, traders and domestic processors. In fiscal 2006, the majority of the Company s peanuts, pecans and walnuts were shelled at the Company s four shelling facilities, and the remaining portion was purchased shelled from processors. See Raw Materials and Supplies and Item 2 Properties Manufacturing Capability, Utilization, Technology and Engineering below.

(B) Peanut Butter

The Company manufactures and markets peanut butter in several sizes and varieties, including creamy, crunchy and natural. Peanut butter accounted for approximately 2.6%, 3.6% and 3.6% of the Company s gross sales for fiscal 2006, fiscal 2005 and fiscal 2004, respectively.

(C) Other Products

The Company also markets and distributes, and in many cases processes and manufactures, a wide assortment of other food and snack products. These products accounted for approximately 4.7%, 5.2% and 5.7% of the Company s gross sales for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. These other products include: candy and confections, natural snacks, trail mixes 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 corn snacks, sunflower seeds, party 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

The Company sells products to approximately 2,900 customers, including approximately 100 international accounts. Retailers of the Company s products include grocery chains, mass merchandisers, drug store chains, convenience stores and membership clubs. Sales to Wal-Mart Stores, Inc. accounted for approximately 19%, 18% and 19% of the Company s net sales for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. In the fourth quarter of fiscal 2006, the Company lost the majority of the business with one of its five largest customers, which represented 3% of gross sales for fiscal 2006. The Company believes it will be able to replace the loss of this customer in fiscal 2007 through the addition of new customers and expansion of business at existing customers. The Company markets many of its products directly to approximately 400 retail stores in Illinois and five other states through its store-door delivery system discussed below. Wholesale distributors purchase products from the Company for resale to regional retail grocery chains and convenience stores. The Company s 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, the Company packages and distributes products manufactured or processed by others.

(iv) Sales and Distribution

The Company markets its products through its own sales department and through a network of approximately 160 independent brokers and various independent distributors and suppliers.

The Company distributes its products from its Illinois, Georgia, California, North Carolina and Texas production facilities and from public warehouse and distribution facilities located in various other states. The majority of the Company s products are shipped from the Company s production, warehouse and distribution facilities by contract and common carriers.

The Company distributes its products to approximately 400 convenience stores, supermarkets and other retail customer locations through its store-door delivery system. Under this system, the Company uses its own fleet of step-vans to market and distribute nuts, snacks and candy directly to retail customers on a store-by-store basis. Presently, the store-door delivery system consists of 11 route salespeople covering routes located in Illinois and other Midwestern states. District and regional route managers, as well as sales and

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marketing personnel operating out of the Company s corporate offices, are responsible for monitoring and managing the route salespeople.

In the Chicago area, the Company operates thrift stores at one of its production facilities and at three other retail stores. These stores sell bulk foods and other products produced by the Company and by other vendors.

(v) Marketing

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

The Company s consumer promotional campaigns include newspaper and radio advertisements, coupon offers and co-op advertising with select retail customers. The Company also conducts an integrated marketing campaign using multiple media outlets for the promotion of the Fisher brand, including sports marketing. The Company also designs and manufactures point of purchase displays and bulk food dispensers for use by several of its retail customers. 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 the Company s processing capabilities, broad product portfolio, product customization and packaging innovation. Additionally, the Company has established a number of co-branding relationships with industrial customers.

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

(vi) Competition

The Company s 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 the Company. In the nut industry, the Company competes with, among others, Planters, Ralcorp Holdings, Inc., Diamond Foods, Inc. and numerous regional snack food processors. Competitive factors in the Company s markets include price, product quality, customer service, breadth of product line, brand name awareness, method of distribution and sales promotion. See Item 1A Risk Factors below.

(vii) Raw Materials and Supplies

The Company purchases nuts from domestic and foreign sources. In fiscal 2006, all of the Company s peanuts, walnuts and almonds were purchased from domestic sources. The Company purchases its pecans from the southern United States and Mexico. Cashew nuts are imported from India, Africa, Brazil and Southeast Asia. For fiscal 2006, approximately 29% of the Company s 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. The Company is the only sheller of all five major domestic nut types and is among a select few shellers who further process, package and sell nuts to the end-user. Raw material pricing pressure, the inability of some shellers to extend credit to raw material suppliers and the high cost of equipment automation have contributed to a consolidation among shellers across all nut types, especially peanuts and pecans**.**

The Company is vertically integrated and, unlike its major retail competitors, who purchase nuts on the open market, the Company purchases nuts directly from growers. For fiscal 2006, the Company s results of operations were severely impacted by a decline in the market price for almonds after entering into fixed price purchase contracts. Consequently, the Company experienced negative margins on its almond sales for fiscal 2006. In order to help decrease the Company s exposure to the effects of a possible recurrence of a declining almond market in fiscal 2007, the Company changed its method of purchasing almonds in fiscal 2007. To the extent

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practicable, the procurement is occurring as industrial sales contracts are entered into, thus helping to reduce the Company s exposure to the effects of changing market prices. Although the Company has modified its method for procuring almonds, there can be no assurance that this method will reduce the Company s losses or the risks associated with buying almonds. In November 2006, the Company announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operation at its Gustine, California facility during the first quarter of calendar 2007 when the processing of current crop year almonds purchased directly from growers is completed. The Company is discontinuing its almond handling operation in order to reduce commodity risk and to eliminate the significant labor costs associated with processing almonds that could not be recovered completely when the almonds are sold. Furthermore, the risks associated with vertical integration that contributed to the Company s negative margins for almond sales also exist, to varying degrees, for other nut types that the Company shells. Accordingly, since the Company is a vertically integrated sheller, processor and seller of nuts and nut products, the effects of changing market prices can never be eliminated.

The Company sponsors a seed exchange program under which it provides 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 56% of the farmer stock peanuts purchased by the Company in fiscal 2006 were grown from seed provided by the Company. The Company also contracts 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.

The availability and cost of raw materials for the production of the Company s products, including peanuts, pecans, walnuts, almonds, other nuts, roasting oil, sugar, dried fruit, coconut and chocolate, are subject to crop size and yield fluctuations caused by factors beyond the Company s control, such as weather conditions and plant diseases. These fluctuations can adversely impact the Company s profitability. Additionally, the supply of edible nuts and other raw materials used in the Company s products could be reduced 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, the Company maintains significant inventories of peanuts, pecans, walnuts and almonds at certain times of the year, especially in the second and third quarters of the Company s fiscal year. Fluctuations in the market price of peanuts, pecans, walnuts, almonds and other nuts may affect the value of the Company s inventory and thus the Company s gross profit and gross profit margin. See Introduction , Fiscal 2006 Compared to Fiscal 2005 Gross Profit and Fiscal 2005 Compared to Fiscal 2004 Gross Profit under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations .

The Company purchases other inventory items, such as roasting oils, seasonings, glass jars, plastic jars, labels, composite cans and other packaging materials, from related parties and third parties.

(viii) Trademarks and Patents

The Company markets its products primarily under private labels and the *Fisher, Evon s, Sunshine Country, Flavor Tree, Texas Pride and Tom Scott* brand names, which are registered as trademarks with the U.S. Patent and Trademark Office as well as in various other jurisdictions. The Company also owns several patents of various durations. The Company expects to continue to renew for the foreseeable future those trademarks that are important to the Company s business.

(ix) Employees

As of June 29, 2006, the Company had approximately 1,800 active employees, including approximately 190 corporate staff employees. The Company s labor requirements typically peak during the last quarter of the calendar year, at which time temporary labor is generally used to supplement the full-time work force.

(x) Seasonality

The Company s business is seasonal. Demand for peanut and other nut products is highest during the months of October, November and December. Peanuts, pecans, walnuts and almonds, the Company s 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, the Company s

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personnel requirements rise during the last four months of the calendar year. This seasonality also impacts capacity utilization at the Company s Chicago area facilities, with these facilities routinely operating at full capacity during the last four months of the calendar year. The Company s working capital requirements generally peak during the third quarter of the Company s fiscal year. See Item 8 Financial Statements and Supplementary Data and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Introduction .

(xi) Backlog

Because the time between order and shipment is usually less than three weeks, the Company believes that backlog as of a particular date is not indicative of annual sales.

(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, substances, chemicals, aflatoxin and other agents, or residues introduced during the growing, storage, handling or transportation phases. Although the Company maintains rigid quality control standards, inspects its products by visual examination, metal detectors or electronic monitors at various stages of its shelling and processing operations for all of its nut and other food products, permits the USDA to inspect all lots of peanuts shipped to and from the Company s peanut shelling facilities, and complies with the Nutrition Labeling and Education Act by labeling each product that it sells with labels that disclose the nutritional value and content of each of the Company s products, no assurance can be given that some nut or other food products sold by the Company may not contain or develop harmful substances. The Company currently maintains product liability insurance of $1 million per occurrence and umbrella coverage of up to $50 million.

The Company has begun to move its raw material storage facility to the Current Site and expects to complete the move during the first quarter of fiscal 2007. The cooling system at the Current Site utilizes ammonia. If a leak in the system were to occur, there is a possibility all of the Company s inventory could be destroyed. At this time, the Company s insurance policy would not reimburse the Company for such a loss. The Company is currently evaluating the risk of an ammonia leak and the cost of additional insurance.

Item 1A Risk Factors

The Company faces a number of significant risks and uncertainties in connection with its operations. The Company s business, results of operations and financial condition could be materially adversely affected by the factors described below. 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 the Company faces. Additional risks and uncertainties not presently known to the Company, or that are currently deemed immaterial, could also potentially impair the Company s business, results of operations and financial condition.

Sustained Losses Would Have a Material Adverse Effect on the Company

In fiscal 2006, the Company incurred operating losses of $18.3 million. If the Company continues to experience operating losses due to, among other things, losses on various nut types such as almonds, such losses would have a material adverse affect on the Company and its financial condition. For example, the terms of the Note Agreement, as amended, include certain restrictive covenants that, among other things, require the Company to attain minimum quarterly adjusted EBITDA levels ($1.5 million, $5.5 million, $6.25 million and $8.0 million for the four quarters of fiscal 2007). The Company did not comply with the minimum quarterly EBITDA requirement for the first quarter of fiscal 2007, and is uncertain as to whether it will be able to comply with the covenant in the future. In the past, the Company has received waivers from its lenders for non-compliance with restrictive covenants. However, if the Company continues to experience net operating losses, among other things, the Company will not be able to fulfill its obligations pursuant to the Note Agreement and the Bank Credit Facility, which would have a material adverse effect on the Company and affect the Company s ability to continue as a going concern.

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The Company s Current Financing Arrangements, and the Classification of the Company s Debts, May Have a Materially Adverse Effect on the Company

The Company has incurred significant losses throughout fiscal 2006. The extent of the losses and uncertainties related to meeting financial covenants in the Company s financing arrangements raises substantial doubt as to whether the Company will be able to continue as a going concern for a period of at least twelve months.

In particular, payment obligations related to the Company s indebtedness may limit its ability to meet its funding needs for operations and interest expenses, to refinance existing debt, to invest in its businesses, support customer growth, and to respond quickly to economic downturns or industry changes either through internal cash generation or access to capital from outside debt and/or equity issuances. Consequently, the Company s debt level could have a material adverse effect on the marketability, price and future value of the Company s equity securities, and may limit the Company s ability to continue as a going concern.

The Company is uncertain whether it will be able to comply with the covenants and warranties in the Company s Note Agreement and Bank Credit Facility, such as the EBITDA covenant contained in its Note Agreement, in the future. The Company will seek waivers from its lenders if defaults in the future occur; however, there can be no assurance that waivers will be received or that such waivers will be on commercially reasonable terms that are not adverse to the Company. Sustained losses by the Company, the inability to receive waivers from the Company s lenders, if necessary, to secure alternative financing for amounts due pursuant to the Note Agreement, and/or future non-compliance with the covenants or warranties in the Company s Bank Credit Facility and Note Agreement would have a material adverse effect on the Company s financial position, results of operations and cash flows and raises substantial doubt with respect to the Company s ability to continue as a going concern. Due to the Company s financial condition and debt obligations, there can be no assurance that the Company will be able to generate or have access to sufficient cash to meet its obligations. For example, the Company s Bank Credit Facility is one of the Company s principal sources of operating funds. There can be no assurance that the conditions to the availability of borrowings under the Bank Credit Facility will be satisfied in the future if, among other things, the Company continues to sustain losses. If such conditions are not satisfied, the Company will not be able to rely on the Bank Credit Facility for operating funds, which may materially and adversely impact the Company s ability to pursue the Company s business plans and objectives and continue as a going concern.

Material Weaknesses in the Company s Internal Controls

The Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) were not effective as a result of material weaknesses identified in the Company s internal control over financial reporting as of June 29, 2006. At the time that the Company s Annual Report on Form 10-K for the year ended June 29, 2006 was filed on September 27, 2006, the CEO and CFO concluded that the Company s disclosure controls and procedures were effective as of June 29, 2006. Subsequent to that evaluation, the Company s CEO and CFO concluded that the Company s disclosure controls and procedures were not effective as of June 29, 2006 because of the material weaknesses in the Company s internal control over financial reporting. A material weakness is a control deficiency, or combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the Company s annual or interim financial statements will not be prevented or detected. Among other things, the Company did not maintain (i) effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis, (ii) effective controls over the completeness and accuracy of the periodic impairment assessment of goodwill (iii) effective controls over the accounting for lease transactions, and (iv) a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company s financial reporting requirements. See Part II, Item 9A Controls and Procedures for more detailed information concerning these material weaknesses and the remediation plan for such weaknesses.

The Company is taking steps to address the identified material weaknesses; however, there is no guarantee that these remediation steps will be sufficient to remediate the identified material weaknesses and control deficiencies or to prevent additional material weaknesses or control deficiencies. In addition, the costs of remediating such deficiencies in the Company s internal controls may adversely affect the Company s financial condition and results of operations. If

the Company is unable to substantially improve the Company s internal controls, the Company s ability to report its financial results and related disclosures on a timely and accurate basis

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will continue to be adversely affected. If the Company s financial statements and related disclosures are not accurate, investors may not have a complete understanding of the Company s operations and the Company s ability to prevent fraud may be impaired. If the Company s financial statements are not timely and accurate, the Company could be delisted from NASDAQ and the Company could be subject to sanctions or investigation by regulatory authorities such as the Securities and Exchange Commission. If any of these events occur, it could have a material adverse affect on the Company s business, financial condition or results of operations, and could affect the Company s ability to continue as a going concern.

Availability of Raw Materials and Market Price Fluctuations

The availability and cost of raw materials for the production of the Company s products, including peanuts, pecans, almonds, walnuts and other nuts are subject to crop size and yield fluctuations caused by factors beyond the Company s control, such as weather conditions, plant diseases and changes in government programs. Additionally, the supply of edible nuts and other raw materials used in the Company s products could be reduced upon 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. The Company purchases some of its nut supply directly from growers using fixed price contracts, some of which are entered into before harvest. Accordingly, there is a possibility that after the Company enters into the fixed price contracts market conditions may change, and the Company will be forced to sell the nuts at a loss. In addition, the Company is not able to hedge against changes in commodity prices because no market to do so exists, and thus, shortages in the supply of and increases in the prices of nuts and other raw materials used by the Company in its products (to the extent that cost increases cannot be passed on to customers) could have an adverse impact on the Company s profitability. Furthermore, fluctuations in the market prices of nuts may affect the value of the Company s inventories and profitability. The Company has significant inventories of nuts that would be adversely affected by any decrease in the market price of such raw materials. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Introduction .

Fixed Price Commitments

The great majority of the Company s industrial sales customers, and certain other customers, require the Company to enter into fixed price commitments with its customers. Such commitments represented approximately 25% of the Company s annual net sales in fiscal 2006, and in many cases are entered into after the Company s cost to acquire the nut products necessary to satisfy the fixed price commitment is substantially fixed. The commitments are for a fixed period of time, typically one year, but may be extended if remaining balances exist. The Company expects to continue to enter into fixed price commitments with respect to certain of its nut products after fixing its acquisition cost in order to maintain customer relationships or when, in management s judgment, market or crop harvest conditions so warrant. To the extent the Company does so, however, these fixed price commitments may result in reduced gross profit margins that have a material adverse effect on the Company s results of operations. For example, the Company s results of operations were adversely affected during fiscal 2006 due to losses on fixed price almond contracts. The market prices for almonds declined significantly after the Company entered into fixed price purchase contracts, but before fixed price sales contracts with customers were entered into. In order to retain customers and remain competitive, the Company was forced to sell the almonds at a loss. In order to help decrease the Company s exposure to the effects of a possible recurrence of a declining almond market in fiscal 2007, the Company changed its method of purchasing almonds. The Company recently announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operation conducted at its Gustine, California facility during the first quarter of calendar 2007. The Company decided to discontinue its almond handling operation in order to reduce the commodity risk that had such a significant negative financial impact in fiscal 2006 and to eliminate the significant labor costs associated with processing almonds purchased directly from growers that could not be recovered completely when the almonds were sold. Although the Company has modified its method for procuring almonds for the current crop year and will no longer process almonds purchased directly from growers after the first quarter of calendar 2007, the risks associated with almond purchases and sales will not be totally eliminated. Furthermore, the risks associated with vertical integration that contributed to the Company s negative margins for almond sales also exist, to varying degrees, for other nut types that the Company shells. Accordingly, since the Company is a vertically integrated sheller,

processor and seller of nuts and nut products, the effects of changing market prices can never be eliminated.

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Competitive Environment

The Company operates in a highly competitive environment. The Company s 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 the Company, such as Planters and Ralcorp Holdings, Inc. The Company s retail competitors buy their nuts on the open market and are thus not exposed to the risks of purchasing raw materials at fixed prices that later, due to altered market conditions, prove to be above market prices. The Company also competes with other shellers in the industrial market and with regional processors in the retail and wholesale markets. In order to maintain or increase its market share, the Company must continue to price its products competitively, which may lower revenue per unit and cause declines in gross margin, if the Company is unable to increase unit volumes as well as reduce its costs.

Dependence Upon Customers

The Company is dependent on a few significant customers for a large portion of its total sales, particularly in the consumer channel. Sales to the Company s five largest customers represented approximately 38%, 38% and 39% of gross sales in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. Wal-Mart alone accounted for approximately 19%, 18% and 19% of the Company s net sales for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The loss of one of the Company s largest customers, or a material decrease in purchases by one or more of its largest customers, would result in decreased sales and adversely impact the Company s income and cash flow.

Pricing Pressures

As the retail grocery trade continues to consolidate and the Company s retail customers grow larger and become more sophisticated, the Company s 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, particularly if buying techniques such as reverse internet auctions increase in popularity. An increased focus on the lowest-cost supplier could reduce the benefits of some of the Company s competitive advantages. The Company s sales volume growth could suffer, and it may become necessary to lower the Company s prices and increase promotional support of the Company s products, any of which would adversely affect its gross profit and gross profit margin.

Production Limitations

The Company typically operates at or near its production capacity at certain times of the year. If the Company experiences an increase in customer demand, particularly prior to the completion of the Company s new facility, it may be unable to fully satisfy its customers supply needs. If the Company becomes unable to supply sufficient quantities of products, it may lose sales and market share to its competitors.

Food Safety and Product Contamination

The Company could be adversely affected if consumers in the Company s principal markets lose confidence in the safety of nut products, particularly with respect to peanut and tree nut allergies. Individuals with nut allergies may be at risk of serious illness or death resulting from the consumption of the Company s nut products, including consumption of other companies products containing the Company s products as an ingredient. Notwithstanding existing food safety controls, the Company processes peanuts and tree nuts on the same equipment, and there is no guarantee that the Company s products will not be cross-contaminated. Concerns generated by risks of peanut and tree nut cross-contamination and other food safety matters may discourage consumers from buying the Company s products, cause production and delivery disruptions, or result in product recalls.

Product Liability and Product Recalls

The Company faces risks associated with product liability claims and product recalls in the event its food safety and quality control procedures fail and its products cause injury or become adulterated or misbranded. In addition, the Company does not control the labeling of other companies products containing the Company s products as an ingredient. A product recall of a sufficient quantity, or

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a significant product liability judgment against the Company, could cause the Company s products to be unavailable for a period of time and could result in a loss of consumer confidence in the Company s food products. These kinds of events, were they to occur, would have a material adverse effect on demand for the Company s products and, consequently, the Company s income and liquidity.

Retention of Key Personnel

The Company s future success will be largely dependent on the personal efforts of its senior operating management team, including Jeffrey T. Sanfilippo, the Company s Chief Executive Officer, Michael J. Valentine, the Company s Chief Financial Officer and Group President, and Jasper B. Sanfilippo, Jr., the Company s Chief Operating Officer and President, who have assumed management of the day-to-day operation of the Company s business over the past two years. In addition, the Company s success depends on the talents of Everardo Soria, Senior Vice President Pecan Operations and Procurement, Walter R. Tankersley, Jr., Senior Vice President Industrial Sales, Charles M. Nicketta, Senior Vice President of Manufacturing and Michael G. Cannon, Senior Vice President of Corporate Operations. The Company believes that the expertise and knowledge of these individuals in the industry, and in their respective fields, is a critical factor to the Company s continued growth and success. The Company has not entered into an employment agreement with any of these individuals, nor does the Company 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 the Company s business and prospects if the Company were unable to identify a suitable candidate to replace any such individual. The Company s success is also dependent upon its ability to attract and retain additional qualified marketing, technical and other personnel, and there can be no assurance that the Company will be able to do so.

Risks and Uncertainties Regarding Facility Consolidation Project

The facility consolidation project may not result in significant cost savings or increases in efficiency, or allow the Company to increase its production capabilities to meet any future increases in customer demand. Moreover, the Company s expectations with respect to the financial impact of the facility consolidation project 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. The total projected cost of the new facility is now estimated at approximately $110 million, which would be $15 million higher than original estimates.

More specifically, the following risks, among others, may limit the financial benefits of the facility consolidation project:

- delays and further cost overruns in the construction of and equipment for the new facility are possible and could offset other cost savings expected from the consolidation;

- the facility consolidation project is likely to have a negative impact on the Company s earnings during the construction period and the time during which operations are transitioned to the Current Site;

- the facility consolidation project may not eliminate as many redundant processes as the Company presently anticipates;

- the Company may not realize any future increase in demand for its products necessary to justify additional production capacity created by the facility consolidation;

- the Company may have problems or unexpected costs in transferring equipment or obtaining new equipment;

- the Company may not be able to transfer production from its existing facilities to the new facility without a significant interruption in its business;

- moving the Company s facilities to a new location may cause attrition in its personnel at levels that result in a significant interruption in its operations, and the Company expects to incur additional annual compensation costs of approximately $300,000 to facilitate the retention of certain of its key personnel while the facility consolidation project is in process;

the Company may be unable to obtain amendments or waivers for any future non-compliance with restrictive financial covenants under its credit facilities;

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the Company may not receive the anticipated rental income for the unused portion of the Current Site; and

the Company may not be able to recover its investment in the Original Site.

If for any reason the Company were to realize less than the expected benefits from the facility consolidation project, its future income stream, cash flows and debt levels could be materially adversely affected. In addition, the facility consolidation project is a long-term project and unanticipated risks may develop as the project proceeds.

Government Regulation

The Company is subject to extensive regulation by the United States Food and Drug Administration, the United States Department of Agriculture, the United States Environmental Protection Agency and other state and local authorities in jurisdictions where its products are manufactured, processed or sold. Among other things, these regulations govern the manufacturing, importation, processing, packaging, storage, distribution and labeling of the Company s products. The Company s manufacturing and processing facilities and products are subject to periodic compliance inspections by federal, state and local authorities. The Company is also subject to environmental regulations governing the discharge of air emissions, water and food waste, 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 the Company s existing facilities as well as its expansion into new operations and jurisdictions, may require the Company to obtain additional licenses and permits and could require it to adapt or alter methods of operations at costs that could be substantial. Compliance with applicable laws and regulations may adversely affect the Company s business. Failure to comply with applicable laws and regulations could subject the Company to civil remedies, including fines, injunctions, recalls or seizures, as well as possible criminal sanctions, which could have a material adverse effect on the Company s business.

Economic, Political and Social Risks of Doing Business in Emerging Markets

The Company purchases a substantial portion of its cashew inventories from India, Brazil and Vietnam, which are in many respects emerging markets. To this extent, the Company is 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 the Company s profitability; and

civil unrest and significant political instability.

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

Inventory Measurement

The Company acquires its nut inventories from growers and farmers in large quantities at harvest times, which are primarily during the second and third quarters of the Company s fiscal year, and receives 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 the Company performs various procedures to periodically confirm the accuracy

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of its 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 the Company s 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 the Company s results of operations in the future.

2002 Farm Bill

The Farm Security and Rural Investment Act of 2002 (the 2002 Farm Bill) terminated the federal peanut quota program beginning with the 2002 crop year. The 2002 Farm Bill replaced the federal peanut quota program with a fixed payment system through the 2007 crop year that can be either coupled or decoupled. A coupled system is tied to the actual amount of production, while a decoupled system is not. The series of loans and subsidies established by the 2002 Farm Bill is similar to the systems used for other crops such as grains and cotton. To compensate farmers for the elimination of the peanut quota, the 2002 Farm Bill provides a buy-out at a specified rate for each pound of peanuts that had been in that farmer s quota under the prior program. Additionally, among other provisions, the Secretary of Agriculture may make certain counter-cyclical payments whenever the Secretary believes that the effective price for peanuts is less than the target price. The termination of the federal peanut quota program has reduced the Company s costs for peanuts, beginning in fiscal 2003, and has resulted in a higher gross margin than the Company has historically achieved. The Company may be unable to maintain these higher gross profit margins on the sale of peanuts, and the Company s business, financial position and results of operations would thus be materially adversely affected. The 2002 Farm Bill expires at the end of the 2007 crop year and will be replaced with new legislation. At this time, the final contents of such legislation are unknown. While there is no indication that the peanut quota program will be reestablished, there can be no assurance such a program, or one like it, will not be passed. Accordingly, the new legislation could alter the fixed payment system currently in place pursuant to the 2002 Farm Bill in a manner that could result in a material adverse affect on the Company s operations.

Public Health Security and Bioterrorism Preparedness and Response Act of 2002

The Company is 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 there under by the FDA, including any potential disruption in the Company s supply of imported nuts, which represented approximately 29% of the Company s total nut purchases in fiscal 2006, will not have a material adverse effect on the Company s business, financial position or results of operations in the future.

The Company s Largest Stockholders Possess a Majority of the Company s Aggregate Voting Power, Which May Make a Takeover or Change in Control More Difficult; The Sanfilippo Group Has Pledged a Substantial Amount of their Class A Common Stock

As of September 27, 2006, Jasper B. Sanfilippo, Marian Sanfilippo, Jeffrey T. Sanfilippo, Jasper B. Sanfilippo, Jr., Lisa A. Evon, John E. Sanfilippo and James J. Sanfillipo (the Sanfilippo Group) own or control Common Stock (one vote per share) and Class A Common Stock (ten votes per share) representing approximately a 52.2% voting interest in the Company. As of September 27, 2006, 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 24.3% voting interest in the 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 the Company s business that cannot be counteracted by another shareholder or group of shareholders. The Sanfilippo Group is able to determine the outcome of nearly all matters

submitted to a vote of the Company s stockholders, including any amendments to the Company s certificate of incorporation or bylaws. The Sanfilippo Group has the power to prevent a change in control or sale of the 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 the Company s stockholders and more favorable to the Sanfilippo Group, subject to applicable legal limitations. In addition, several members of the Sanfilippo Group that beneficially own a significant interest in the Company have pledged a substantial portion of the Company s Class A Stock that they own to secure loans made to them by commercial banks. If a stockholder

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defaults on any of its obligations under these pledge agreements or the related loan documents, these banks may have the right to sell the pledged shares. Such a sale could cause the Company s stock price to decline. Many of the occurrences that could result in a foreclosure of the pledged shares are out of the Company s control and are unrelated to the Company s operations. Because these shares are pledged to secure loans, the occurrence of an event of default could result in a sale of pledged shares that could cause a change of control of the Company, even when such a change may not be in the best interests of the Company s stockholders, and it would also result in a default under the Company s Note Agreement and Bank Credit Facility.

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

The Company houses a large amount of peanut inventory on behalf of the U.S. government at various facilities. The Company, as a licensed United States Department of Agriculture Nut Warehouse Operator, is responsible for delivering the loan value of the peanut inventory in its possession as represented on the warehouse receipt on demand. Because the inventory may be stored at the Company s 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. The Company is responsible for reimbursing the U.S. government for any such decline in value associated with quality or shrinkage issues that arise during the Company s custody of such inventory. Accordingly, a significant decline in the value of the peanut inventory stored at the Company s facilities for these circumstances could have a material adverse effect on the Company.

Item 6 Selected Financial Data

The selected financial data set forth in this Item 6 has been restated to reflect adjustments to the Company s consolidated financial statements as more fully described in Note 1 to the consolidated financial statements contained in Item 8 Financial Statements and Supplementary Data of this Form 10-K/A. The financial data should be read in conjunction with the Company s 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 following historical consolidated financial data as of and for the years ended June 29, 2006, June 30, 2005, June 24, 2004, June 26, 2003 and June 27, 2002 were derived from the Company s consolidated financial statements. The information below is not necessarily indicative of the results of future operations. No dividends have been declared since 1995.

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

	Year Ended				
	June 29, 2006 Restated	**June 30, 2005**	**June 24, 2004**	**June 26, 2003**	**June 27, 2002**
Net sales	$ 579,564	$ 581,729	$ 520,811	$ 419,677	$ 352,799
Cost of sales	542,447	503,300	428,967	346,755	294,999
Gross profit	37,117	78,429	91,844	72,922	57,800
Selling and administrative expenses	54,159	51,842	50,780	44,093	39,898
Goodwill impairment loss	1,242				
(Loss) income from operations	(18,284)	26,587	41,064	28,829	17,902
Interest expense	(6,516)	(3,998)	(3,434)	(4,681)	(5,757)
Debt extinguishment fees			(972)		
Rental and miscellaneous (expense) income, net	(610)	1,179	440	486	590
Loss (income) before income taxes	(25,410)	23,768	37,098	24,634	12,735

Income tax (benefit) expense	(8,689)	9,269	14,468	9,607	5,044
Net (loss) income	$ (16,721)	$ 14,499	$ 22,630	$ 15,027	$ 7,691
Basic (loss) earnings per common share	$ (1.58)	$ 1.37	$ 2.35	$ 1.63	$ 0.84
Diluted (loss) earnings per common share	$ (1.58)	$ 1.35	$ 2.32	$ 1.61	$ 0.84

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Balance Sheet Data: ($ in thousands)

	June 29, 2006 Restated	June 30, 2005	June 24, 2004	June 26, 2003	June 27, 2002
Working capital	$ 22,617	$137,764	$122,854	$ 75,182	$ 67,645
Total assets	390,912	394,472	246,934	223,727	206,815
Long-term Debt, less current maturities	5,618	67,002	12,620	29,640	40,421
Total debt	137,676	144,174	19,166	70,118	69,623
Stockholders equity	180,110	196,175	181,360	118,781	102,060

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

2006 Restatements

The Company s Report on Form 10-K for the year ended June 29, 2006 is being amended in order to restate the Company s Consolidated Financial Statements as of and for the year ended June 29, 2006. The restatement includes the reclassification of Long-term Debt as it relates to the note purchase agreement dated as of December 16, 2004, as amended (the Note Agreement), as Current Maturities of Long-term Debt. When the Company filed its financial statements for the year ended June 29, 2006 on Form 10-K on September 27, 2006, management concluded that $54.2 million of debt related to the Note Agreement should be classified as Long-term Debt. That determination was based upon, among other things, a forecast (the Forecast) the Company prepared indicating that the Company would be able to attain the minimum quarterly adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) levels required by the Note Agreement throughout fiscal 2007, as well as satisfy other non-financial covenants contained in the Note Agreement and other borrowing arrangements. The Company did not achieve the minimum quarterly EBITDA covenant for the quarter ended September 28, 2006 by a material amount, which caused the Company to reevaluate the accuracy of the Forecast, the reasonableness of assumptions underlying the Forecast and its related conclusions with respect to expected covenant compliance. The Company subsequently determined that the Forecast did not take into consideration information available to the Company in connection with classifying amounts as current and non-current in its June 29, 2006 balance sheet and therefore the balance sheet classification of the Long-term Debt was not accurate. If such information had been incorporated in the Forecast and considered by management in evaluating the classification of affected debt obligations, the Company would have concluded that the Company would not meet the EBITDA covenant for the first quarter of fiscal 2007 and accordingly the obligations pursuant to the Note Agreement would have been classified as Current Maturities of Long-term Debt in the consolidated financial statements as of and for the year ended June 29, 2006.

As a result of the revised forecast described above, the Company also reevaluated its 2006 impairment test of the carrying value of goodwill and reconsidered the need for a valuation allowance with respect to state income tax net operating loss (NOL) carryforwards**.** The Company used a forecast in the original goodwill impairment test which failed to consider certain information and as a result led the Company to conclude the goodwill was not impaired. By using the revised forecast that considered all known facts, the Company has determined that the fair market value was below book value of their reporting unit. As a result the Company is restating its consolidated financial statements and related disclosures for fiscal 2006 to recognize an impairment of the remaining goodwill balance of $1.2 million.

With respect to state income tax NOL carryforwards, there is a rebuttable presumption in a going concern circumstance that the remaining state NOL carryforwards will not be recoverable as future taxable income from sources other than the reversal of existing future taxable temporary differences and can not be relied upon as evidence supporting the recovery of the deferred tax asset. As a result, the Company has provided a valuation allowance of $0.5 million, which reflects the amount by which state income tax NOL carryforwards are in excess of state net deferred tax liabilities.

The Company is also restating its financial statements for the year ended June 29, 2006 to consolidate a variable interest entity. The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been adjusted to consolidate the one partnership leasing a facility to the Company as of June 29, 2006. As a

result, Current Maturities of Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The cumulative effect of this item of $0.5 million was recorded in Cost of Sales in the Statement of Operations for the year ended June 29, 2006. In connection with the sale of the property in March 2006, the Company

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recognized a gain of approximately $3.5 million in other income and expense, together with an equal and offsetting amount applicable to the partnership s minority interest, as the partnership and not the Company is entitled to the net proceeds from the sale.

The restated financial statements as of and for the year ended June 29, 2006 adjust the individual financial statement line items detailed below and impact certain related footnote disclosures. Note 2 to the Company s Consolidated Financial Statements describes the ability of the Company to continue as a going concern.

The effects of the restatements on the Consolidated Balance Sheet as of June 29, 2006 are summarized below:

(In thousands)	June 29, 2006 As Previously Reported	June 29, 2006 As Restated
Consolidated Balance Sheet		
Buildings	$ 63,438	$ 64,146
Total Property, Plant and Equipment	156,151	156,859
Goodwill	1,242	
Total Assets	391,446	390,912
Current Maturities of Long-term Debt	12,304	67,717
Total Current Liabilities	135,732	191,145
Long-term Debt, less current maturities	59,785	5,618
Long-term Deferred Income Taxes	5,885	6,385
Total Long-term Liabilities	73,324	19,657
Retained Earnings	83,667	81,387
Total Stockholders Equity	182,390	180,110
Total Liabilities & Stockholders Equity	391,446	390,912

The effects of the restatements on the Consolidated Statement of Operations for the year ended June 29, 2006 are summarized below:

(In thousands)	Year Ended June 29, 2006 As Previously Reported	Year Ended June 29, 2006 As Restated
Consolidated Statement of Operations		
Cost of Sales	$541,909	$542,447
Gross Profit	37,655	37,117
Goodwill Impairment Loss		1,242
Total Operating Expenses	54,159	55,401
Loss from Operations	(16,504)	(18,284)
Loss Before Income Taxes	(23,630)	(25,410)
Income Tax Benefit	9,189	8,689
Net Loss	(14,441)	(16,721)
Loss per Common Share basic and diluted	(1.36)	(1.58)

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The effects of the restatements in the Consolidated Statement of Cash Flows for the year ended June 29, 2006 are summarized below:

(In thousands)	Year Ended June 29, 2006 As Previously Reported	Year Ended June 29, 2006 As Restated
Consolidated Statement of Cash Flows		
Net (loss) income	$(14,441)	$(16,721)
Goodwill impairment loss		1,242
Deferred income tax (benefit)/expense	(2,500)	(2,000)
Other operating assets	1,455	1,993
Proceeds from disposition of assets	24	3,774
Net cash used in investing activities	(45,031)	(41,281)
Principal payments on Long-term Debt	(4,717)	(5,964)
Minority interest distribution		(2,503)
Net cash provided by financing activities	4,427	677

Introduction

The Company maintains a vertically integrated nut processing operation that allows the Company to control every step of the process, including procurement from growers, shelling, processing, packing and marketing. For example, by purchasing nuts directly from growers, processing the nuts and then marketing the end products to customers, the Company is able to capture profit margins on the original purchase of the nuts. In the past, the Company s vertically integrated business model has worked to its advantage. Vertical integration, however, can under certain circumstances result in poor earnings or losses. For example, during fiscal 2006 (i) the Company bought too many nuts, such as almonds, directly from growers, (ii) subsequent to the Company s purchases from growers, the market for certain nuts, such as almonds, declined, which impaired the Company s ability to profit from its purchases and (iii) as a result of an overall increase in the price of nuts, consumption of nuts and nut products decreased. The combination of these three factors, among others, contributed to the Company s losses in fiscal 2006 and limited the Company s ability to profit from its vertically integrated business model.

The risks associated with vertical integration that contributed to the Company s negative margins for almond sales also exist, to varying degrees, for other nut types that the Company shells. Accordingly, since the Company is a vertically integrated sheller, processor and seller of nuts and nut products, the effects of changing market prices can never be eliminated.

The Company s results for fiscal 2006 were disappointing in terms of both sales and earnings. Net sales decreased by 0.4% to $579.6 million for fiscal 2006 compared to $581.7 million for fiscal 2005, and sales volume measured in pounds decreased by 10.2%, approximately 20% of which was caused by fiscal 2005 containing fifty-three rather than fifty-two weeks. The primary factor causing the decline in sales volume was the higher costs and related selling prices of tree nuts in fiscal 2006 when compared to fiscal 2005, which led to decreased demand for nut products. The Company s decline in unit volume is consistent with trends throughout the entire nut category. The Company realized a net loss of $16.7 million for fiscal 2006 compared to net income of $14.5 million for fiscal 2005. In addition to the decline in sales volume, the effects of a declining market price of almonds, after the crop was procured at fixed prices, negatively affected the Company s operating results for fiscal 2006. Almonds in inventory at June 29, 2006 have been adjusted to the lower of cost or market. It is anticipated that the almonds in inventory at June 29, 2006 will be sufficient to meet demand into the second quarter of fiscal 2007. Consequently, the Company expects zero gross profit on almond sales through this time period. In order to help decrease the Company s exposure to the effects of a possible recurrence of a declining almond market in fiscal 2007, the Company changed its method of purchasing almonds. To the extent practicable, the procurement is occurring as industrial sales contracts are entered into, thus helping to reduce the Company s exposure to the effects of changing market prices. Although the Company is modifying its method for procuring almonds, there can be no assurance that this method will reduce the Company s losses or the

risks associated with buying almonds. In November 2006, the Company announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operation at its Gustine, California facility during the first quarter of calendar 2007 when the processing of current crop year almonds purchased directly from growers is completed. The Company is

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discontinuing its almond handling operation in order to reduce commodity risk and to eliminate the significant labor costs associated with processing almonds that could not be recovered completely when the almonds are sold. Management is currently assessing the redeployment of the machinery and equipment in the almond handling operation to be discontinued to other operations in the Gustine facility or to its other facilities. The Company performed a review of the carrying value of the assets related to its Gustine operation and concluded that no impairment of the carrying value currently exists.

The Company expects that the demand for nuts will improve in fiscal 2007 as lower prices are anticipated for most major nut types. Private label sales in the consumer distribution channel were negatively impacted by the high nut costs in fiscal 2006. The price differential between private label products and major branded products was very narrow in fiscal 2006 which hampered sales promotions of the private label products. The anticipated lower nut prices for fiscal 2007 are expected to stimulate promotional activity in the private label market as lower prices increase consumer demand and the gap between private label and branded products returns to normal historical levels. The high price of tree nuts also had a negative impact in the industrial distribution channel. Food processors decreased the usage of nuts in their products as a result of the higher price of tree nuts.

The Company s unfavorable operating results caused non-compliance with certain restrictive covenants under its financing arrangements throughout fiscal 2006. Specifically, the Company did not achieve the minimum trailing fiscal four quarters earnings before interest, taxes, depreciation and amortization (EBITDA) requirement, the maximum allowable funded debt to twelve-month EBITDA ratio, the minimum fixed charge coverage ratio and the monthly minimum working capital requirement under its unsecured bank credit facility effective during fiscal 2006 (the Prior Bank Credit Facility) and the Note Agreement for the second and third quarters of fiscal 2006 and at June 29, 2006. In July 2006, the Company amended its Prior Bank Credit Facility into a secured bank credit facility (the Bank Credit Facility) that also waived all non-compliance with financial covenants through June 29, 2006. The Note Agreement was also amended to, among other things, waive all non-compliance with financial covenants through June 29, 2006, increase the interest rate to 5.67% from 4.67% per annum, secure the Company s obligations and modify future financial covenants.

When the Company filed its financial statements for the year ended June 29, 2006 on Form 10-K on September 27, 2006, management concluded that $54.2 million of debt related to the Note Agreement was properly classified as Long-term Debt. That determination was based upon, among other things, a forecast (the Forecast) the Company prepared during its first quarter of fiscal 2007 indicating that the Company would be able to attain the minimum quarterly adjusted EBITDA levels required by the Note Agreement throughout fiscal 2007, as well as satisfy other non-financial covenants contained in the Note Agreement and other borrowing arrangements. The Registrant did not achieve the minimum quarterly EBITDA covenant for the quarter ended September 28, 2006 by a material amount, which caused the Company to reevaluate the accuracy of the Forecast, the reasonableness of assumptions underlying the Forecast and its related conclusions with respect to expected covenant compliance. The Company determined that the Forecast did not take into consideration information available to the Company in connection with classifying amounts as current and non-current in its June 29, 2006 balance sheet and therefore the balance sheet classification of the Long-term Debt was not accurate. If such information had been incorporated in the Forecast and considered by management in evaluating the classification of affected debt obligations, the Company would have concluded that the Company would not meet the EBITDA covenant for the first quarter of fiscal 2007 and accordingly the obligations pursuant to the Note Agreement would have been classified as Current Maturities of Long-term Debt in the consolidated financial statements as of and for the year ended June 29, 2006.

The Company is uncertain whether it will be able to comply with the covenants and warranties in its various financing arrangements, such as the EBITDA covenant contained in its Note Agreement, in the future. If the Company does not comply with the covenants or warranties in its financing arrangements in the future, the Company will seek waivers from its lenders; however, there can be no assurance that in such case waivers will be received or that such waivers will be on commercially reasonable terms that are not adverse to the Company.

The Company s announcement on November 22, 2006 that the consolidated financial statements in its Form 10-K for fiscal 2006 filed on September 27, 2006 could no longer be relied upon caused a default pursuant to the Company s Note Agreement and Bank Credit Facility. In addition, the Company did not file its quarterly report on Form 10-Q for

the quarter ended September 28, 2006 with the Securities and Exchange Commission by the November 27, 2006 deadline required in the Note Agreement, which caused an additional event of default pursuant to the Note Agreement. The Company has received waivers from its lenders for these events of non-compliance. Non-compliance with any future covenant or warranty requirements would allow the lenders to demand immediate payment. If waivers are not received or acceptable terms renegotiated with respect to future non-compliance with covenant or

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warranty requirements, the Company s ability to pursue its business plans, objectives and its ability to continue as a going concern would be adversely affected.

Obtaining alternative financing for amounts due pursuant to the Note Agreement would allow the Company to eliminate the restrictive EBITDA covenant that the Company did not comply with in the first quarter of fiscal 2007 as well as the related uncertainty as to whether the Company will be able to comply with such covenant in the future. The Company believes it would be able to secure alternative financing for the amounts due pursuant to the Note Agreement through conventional mortgages that do not contain a restrictive EBITDA covenant; however, there can be no assurance that such alternative financing could be obtained, that the new lenders would be willing to negotiate on terms acceptable to the Company, or that the Company would receive the consent for such refinancing required by its Bank Credit Facility. The Bank Credit Facility does not contain a restrictive EBITDA covenant; however, a default under the Note Agreement triggers a default under the Bank Credit Facility. If the Company attempts to secure alternative financing for amounts due under the Note Agreement, it does not anticipate that it would also attempt to secure alternative financing for amounts due pursuant to the Bank Credit Facility. Sustained losses by the Company, the inability to receive waivers from the Company s lenders, if necessary, to secure alternative financing for amounts due pursuant to the Note Agreement, and/or future non-compliance with the covenants or warranties in the Company s Bank Credit Facility and Note Agreement would have a material adverse effect on the Company s financial position, results of operations and cash flows and raises substantial doubt with respect to the Company s ability to continue as a going concern.

On April 15, 2005, the Company closed on the $48.0 million purchase of a site in Elgin, Illinois (the Current Site). The Current Site includes both an office building and a warehouse. The Company is leasing 41.5% of the office building back to the seller for a three year period, with options for an additional seven years. The remaining portion of the office building may be leased to third parties; however, further capital expenditures, such as for increased parking availability, will be necessary to lease a substantial portion of the remaining space. The 653,302 square foot warehouse was expanded to slightly over 1,000,000 square feet during fiscal 2006 and is being modified to serve as the Company s principal processing and distribution facility and the Company s headquarters. The Company transferred its primary Chicago area distribution facility from a leased location to the Current Site in July 2006. Processing operations are scheduled to begin at the Current Site in the second quarter of fiscal 2007, with operations moving from the existing Chicago area locations, and new equipment installed, beginning in the second quarter of fiscal 2007 and continuing on a gradual basis through the end of calendar 2008.

In the second quarter of fiscal 2007, the Company learned that one of the facility consolidation project contractors had stopped paying its subcontractors and may be insolvent. Some of these subcontractors have given notice to the Company regarding their intent to file liens against the Company for amounts allegedly past due. The Company has contacted all known subcontractors and requested that they contact the Company prior to filing any such liens in order to give the Company time to work with the contractor to determine whether the amounts the subcontractors are claiming as past due relate to amounts validly outstanding and work actually performed. The Company has not yet determined its ultimate exposure for the claims, but believes that the amounts outstanding are approximately $0.3 million.

In fiscal 2005, in order to facilitate the facility consolidation project, the Company s Board of Directors appointed an independent board committee to explore alternatives with respect to the Company s existing leases for the properties owned by two related party partnerships. After negotiations with the partnerships, the independent committee approved a proposed transaction and, subsequently, the Company entered into various agreements with the partnerships. The agreements provided for an overall transaction whereby: (i) the current related party leases were terminated without penalty to the Company; (ii) the Company sold the portion of the Busse Road property that it owned to the partnerships for $2.0 million; and (iii) the Company sold its Selma, Texas properties to the partnerships for $14.3 million (an estimate of fair value which also slightly exceeds its carrying value) and leased the properties back. The sale price and rental rate for the Selma, Texas properties were determined by an independent appraiser to be at fair market 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. In addition, the Company has an option to repurchase the Selma property 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 sale of the Selma, Texas properties at fair market value to the related party partnerships was consummated during the first quarter of fiscal 2007.

The Company is restating its financial statements for the year ended June 29, 2006 to consolidate variable interest entities (two related party partnerships). The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been restated

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to consolidate the remaining partnership leasing a facility to the Company as of June 29, 2006. As a result, Current Maturities of Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The cumulative effect of this item of $0.5 million was recorded in Cost of Sales in the Statement of Operations for the year ended June 29, 2006.

In March 2006, the Company sold a facility owned by one of its consolidated partnerships, a variable interest entity. As the Company was the primary beneficiary of the partnership, upon consolidation of the partnership the deficit, which includes losses in excess of the minority interest, was absorbed by the Company. Upon sale of the facility by the partnership for a gain, the previously recognized losses attributable to the minority interest of $0.9 million were recovered by the Company to the extent such losses were previously allocated to the Company in consolidation and reduces any gain allocable to the partnership interest. Additionally as the partnership and not the Company was entitled to the net proceeds from the sale, the Company recorded an equal and offsetting minority interest amount for the partnership s gain on the sale of approximately $3.5 million in other income and expense.

Subsequent to year end, the Company sold a facility, a portion of which was owned directly by the Company and the remaining portion owned by one of its consolidated partnerships, a variable interest entity. The related party partnership then sold the property to a third party, which is leasing back the property to the Company for the time period necessary to transition operations to the new Elgin facility.

Also in July 2006, the Company sold its Arlington Heights and Arthur Avenue facilities for a combined $7.8 million in proceeds and is leasing back the facilities from the purchaser. The Arlington Heights facility is being leased back through December 2008 with a three to ninth month renewal option. The Arthur Avenue facility is being leased back through August 2008 with a three to nine month renewal option.

The Company faces a number of challenges in the future. For example, the Company is uncertain as to whether it will be able to comply with the covenants and warranties contained in its financing arrangements in the future. Future non-compliance with the covenants and warranties in the Company s financing arrangements could divert managements attention from other Company matters, including the implementation of the Company s plan to continue as a going concern, which is designed to help the Company achieve profitability in the future. The ability of the Company to continue as a going concern is dependent, among other things, on the successful implementation of such plan.

In addition, the Company s Chicago area processing facilities operate at full capacity at certain times during the year. If the Company experiences growth in unit volume sales, it could exceed its capacity to meet the demand for its products, especially prior to the completion of the new facility. The Company faces potential disruptive effects on its business, such as cost overruns for the construction of the new facility or business interruptions that may result from the transfer of production to the new facility. For example, the total projected cost of the new facility is now estimated at approximately $110 million, which would be $15 million higher than original estimates. In addition, the Company will continue to face the ongoing challenges of its business such as fluctuating commodity costs, food safety and regulatory issues and the maintenance and growth of its customer base. See Item 1A Risk Factors.

The Company performed an analysis of its existing assets at its Chicago locations, and based on this analysis identified those assets which will be transferred to the Current Site and those that will not. For those assets which are not expected to be transferred to the Current Site, the remaining depreciation period has been reduced to reflect the Company s estimate of the useful lives of these assets. In addition to the assets being transferred, new machinery and equipment will also be installed at the Current Site. The Company currently anticipates that operations will be fully integrated into the Current Site by December 2008. Total remaining capital expenditures for the new facility are estimated to be approximately $25 $30 million, which the Company expects to finance through the Bank Credit Facility, available cash flow from operations, proceeds from the sale of existing facilities and rental income from the office building at the Current Site. Several uncertainties exist, such as those described under Item 1A Risk Factors.

Prior to acquiring the Current Site, the Company and certain related party partnerships entered into a Development Agreement with the City of Elgin, Illinois (the Development Agreement) for the development and purchase of the land where a new facility could be constructed (the Original Site). The Development Agreement provided for certain conditions, including but not limited to the completion of environmental and asbestos remediation procedures, the inclusion of the property in the Elgin enterprise zone and the establishment of a tax incremental financing district

covering the property. The Company fulfilled its remediation obligations under the Development Agreement during fiscal 2005. On February 1, 2006, the Company and the related party partnerships entered into a termination agreement with the City of Elgin whereby the Development Agreement was terminated and the Company and the City of

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Elgin (the City) became obligated to convey the property to the Company and the partnerships within thirty days. The partnerships subsequently agreed to convey their respective interests in the Original Site to the Company by quitclaim deed without consideration. On March 28, 2006, JBSS Properties, LLC (JBSS LLC), a wholly owned subsidiary of the Company, acquired title to the Original Site by quitclaim deed, and JBSS LLC entered into an Assignment and Assumption Agreement (the Agreement) with the City. Under the terms of the Agreement, the City assigned to the Company all the City s remaining rights and obligations under the Development Agreement. The Company is currently marketing the Original Site to potential buyers, and expects a sale to be consummated in fiscal 2008. The Company s costs under the Development Agreement totaling $6.8 million are recorded as Other Assets at June 29, 2006 and June 30, 2005. The Company has reviewed the asset under the Development Agreement for realization, and concluded that no adjustment of the carrying value is required.

Total inventories were approximately $164.4 million at June 29, 2006, a decrease of $53.2 million, or 24.5%, from the balance at June 30, 2005. The decrease is due primarily to decreases in finished goods, almonds, cashews and peanuts. The decreases in finished goods and cashews are due to management emphasis on inventory reduction in order to capitalize on anticipated market price declines in virtually all nuts in fiscal 2007. The decrease in almonds was due to lower purchases in fiscal 2006 than in fiscal 2005. Overall volume of nut inventory, as measured by pounds on hand, decreased by 20.1% at June 29, 2006 when compared to June 30, 2005. Net accounts receivable were $35.0 million at June 29, 2006, a decrease of approximately $3.5 million, or 9.0%, from the balance at June 30, 2005.

The Company s business is seasonal. Demand for peanut and other nut products is highest during the months of October, November and December. Peanuts, pecans, walnuts and almonds, the Company s 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, the Company s personnel requirements rise during the last four months of the calendar year. This seasonality also impacts capacity utilization at the Company s Chicago area facilities, with these facilities routinely operating at full capacity during the last four months of the calendar year. The Company s working capital requirements generally peak during the third quarter of the Company s fiscal year.

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 of such items from fiscal 2005 to fiscal 2006 and from fiscal 2004 to fiscal 2005.

	Percentage of Net Sales			Percentage Increase (Decrease)	
	Fiscal 2006 Restated	Fiscal 2005	Fiscal 2004	Fiscal 2006 vs. 2005 Restated	Fiscal 2005 vs. 2004
Net sales	100.0%	100.0%	100.0%	(0.4)%	11.7%
Gross profit	6.4	13.5	17.6	(52.7)	(14.6)
Selling expenses	6.9	6.8	7.2	1.3	5.7
Administrative expenses	2.5	2.1	2.6	14.4	(7.9)
Goodwill impairment loss	0.2				
(Loss) income from operations	(3.2)	4.6	7.9	(168.8)	(35.3)

Fiscal 2006 Compared to Fiscal 2005

Net Sales. Net sales decreased to approximately $579.6 million for fiscal 2006 from approximately $581.7 million for fiscal 2005, a decrease of approximately $2.2 million or 0.4%. Net sales would have increased in fiscal 2006 when compared to fiscal 2005, except that fiscal 2005 contained fifty-three weeks rather than fifty-two-weeks. Unit volume, measured in terms of pounds shipped, decreased by 10.2% in fiscal 2006 compared to fiscal 2005.

Unit volume sales decreases of 13.2% in the consumer distribution channel and 13.4% in the industrial distribution channel were primarily responsible for the overall decrease in unit volume sales. The decrease in consumer sales volume was due primarily to lower sales of private label products. Sales volume of the Company s Fisher brand decreased 4.5% for fiscal 2006 compared to fiscal 2005. The private label decrease was caused in large part by the loss of private label business in the latter part of fiscal 2005 with customers that would not accept price increases.

Also, market studies have shown a shift in consumer preference to branded snack nuts away from private label as the price differential between branded and private label products has narrowed. Market studies have also shown a decrease in overall nut category volume sales during fiscal 2006. The decrease in unit volume sales in the industrial distribution

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channel was caused primarily by reduced demand due to the higher costs of tree nuts. Unit volume sales decreased by 3.8% and 1.6% in the food service and contract packaging distribution channels, respectively, and increased by 0.2% in the export distribution channel.

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 2006**		**Fiscal 2005**	
Consumer	$ 292,890	50.6%	$ 298,298	51.3%
Industrial	131,635	22.7	132,900	22.8
Food Service	64,356	11.1	61,294	10.5
Contract Packaging	44,874	7.7	45,181	7.8
Export	45,809	7.9	44,056	7.6
Total	$ 579,564	100.0%	$ 581,729	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 2006**	**Fiscal 2005**
Peanuts	20.1%	22.4%
Pecans	21.8	23.3
Cashews & Mixed Nuts	22.4	22.7
Walnuts	11.8	9.4
Almonds	15.4	13.5
Other	8.5	8.7
Total	100.0%	100.0%

Gross Profit. Gross profit in fiscal 2006 decreased 52.7% to $37.1 million from approximately $78.4 million for fiscal 2005. Gross profit margin decreased to 6.4% for fiscal 2006 from 13.5% for fiscal 2005. The two major factors for the significant decline in gross profit and gross profit margin were (i) a 16% decline in production volume in fiscal 2006 compared to fiscal 2005, and (ii) losses on almond sales due to a substantial decline in market costs after the procurement costs of almonds were fixed. The major components contributing to the decrease in gross profit of $41.3 million may be summarized as follows:

	Amount (in millions)
Impact of 16% production volume decline	$ 19.3
Decrease in gross profit on almond sales	10.3
Industrial almond contract loss reserve	2.0
Bulk stored inventory adjustments	3.9
Disposal and reserve for walnut and almond by-products and packaging materials	2.8
Increase in workers compensation expense	0.8
Other	2.2
	$ 41.3

The decreases in sales volume led to a corresponding decrease in production. Also, production further decreased due to a concerted effort to reduce finished goods inventory levels. Manufacturing expenses of a fixed nature do not decrease with the decrease in production. Accordingly, the production volume decline reduced the Company s gross profit by $19.3 million. Almonds also severely affected the Company s profitability. Almond sales generated a decrease in gross profit of $10.3 million in fiscal 2006 compared to fiscal 2005. A significant decrease in the market price for almonds occurred after the Company s costs to procure almonds were fixed. The majority of the Company s almond sales are to industrial customers on fixed price contracts. For competitive reasons, the Company entered into fixed price almond sales contracts at unfavorable prices with major customers in order to maintain good relationships. A $2.0 million reserve remained at June 29, 2006 for losses expected on the fulfillment of fixed price almond sales contracts during the first half of fiscal 2007. The Company maintains significant quantities of bulk stored inshell inventories. $3.4 million in adjustments to increase the estimated quantities of bulk stored inventories were recorded during fiscal 2005, while a $0.5 million adjustment was recorded to decrease the estimated quantities of bulk stored inventories as of June 29, 2006, resulting in a $3.9 million change in gross profit between fiscal 2006 and fiscal 2005. An increase in the processing of almonds and walnuts led to an increase in the production of by-products. The processes of slicing and slivering almonds inevitably result in the production of by-

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products. The walnut by-products were caused by poor quality inshell walnuts that required additional reprocessing. Along with the identification of obsolete packaging materials, the generation of by-products affected gross profit by $2.8 million in fiscal 2006. Workers compensation expense increased by $0.8 million in fiscal 2006 compared to fiscal 2005 due primarily to a change in estimate in fiscal 2006.

Selling and Administrative Expenses. Selling and administrative expenses increased to $54.2 million, or 9.3% of net sales, for fiscal 2006 from $51.8 million, or 8.9% of net sales, for fiscal 2005. Selling expenses increased to $39.9 million, or 6.9% of net sales, for fiscal 2006 from $39.4 million, or 6.8% of net sales, for fiscal 2005. The increase was due primarily to an increase of $0.4 million in general advertising expenses. Administrative expenses increased to $14.2 million, or 2.5% of net sales, for fiscal 2006 from $12.4 million, or 2.1% of net sales, for fiscal 2005. This increase was due primarily to $1.8 million of expenses related to a supplemental retirement plan adopted in August 2005 and to a $0.4 million increase in legal expenses relating primarily to the facility consolidation project and new financing arrangements, offset partially by the $0.9 million gain from the termination of a related party capital lease.

Goodwill Impairment Loss. A goodwill impairment loss of $1.2 million was recorded for fiscal 2006, as fair value of the Company s business at June 29, 2006 was determined to be below net book value and there was no implied fair value of the Company s goodwill.

***(Loss) Income from Operations*.** Due to the factors discussed above, the loss from operations was $(18.3) million, or (3.2)% of net sales, for fiscal 2006, compared to income from operations of $26.6 million, or 4.6% of net sales, for fiscal 2005. Continued losses of this magnitude would create doubt as to the Company s ability to continue as a going concern.

Interest Expense. Interest expense increased to $6.5 million for fiscal 2006 from $4.0 million for fiscal 2005. Additionally, $1.8 million of interest was capitalized pertaining to the Company s facility consolidation project during fiscal 2006. This increase was caused primarily by higher average levels of borrowings and a higher interest rate on the Company s revolving bank credit facility.

Rental and Miscellaneous (Expense) Income, Net. Net rental and miscellaneous (expense) income was an expense of $0.6 million for fiscal 2006 compared to income of $1.2 million for fiscal 2005. The decrease of $1.8 million was caused by expenses at the office building at the Current Site, including depreciation, exceeding rental income. This net expense is expected to continue until a larger portion of the office building at the Current Site is rented.

Income Taxes. Income tax benefit was approximately $8.7 million, or 34.2% of loss before income taxes, for fiscal 2006, compared to income tax expense of $9.3 million, or 39.0% of income before income taxes, for fiscal 2005. The change in the effective rate for fiscal 2006 is due primarily to the non-taxable nature of the goodwill impairment loss of $1.2 million, and $0.5 million established as a valuation allowance related to state income tax net operating loss carryforwards.

Net (Loss) Income. Net loss was $(16.7) million, or $(1.58) basic and diluted per common share, for fiscal 2006, compared to net income of $14.5 million, or $1.37 basic per common share ($1.35 diluted), for fiscal 2005, due to the factors discussed above.

Fiscal 2005 Compared to Fiscal 2004

Net Sales. Net sales increased to $581.7 million for fiscal 2005 from $520.8 million for fiscal 2004, an increase of $60.9 million or 11.7%. The increase in net sales was due primarily to higher prices related to higher commodity costs, especially for almonds and pecans. Also, fiscal 2005 contained fifty-three weeks whereas fiscal 2004 contained fifty-two-weeks. Unit volume, measured in terms of pounds shipped, was virtually the same in fiscal 2005 and fiscal 2004, and would have decreased slightly if not for the extra week in fiscal 2005.

Unit volume sales increased by 13.3% in the food service distribution channel and by 27.4% in the contract packaging distribution channel, but decreased by 3.5% in the consumer distribution channel and by 6.4% in the industrial distribution channel. Unit volume sales in the export distribution channel were virtually unchanged in fiscal 2005 when compared to fiscal 2004. Food service volume increased due primarily to: (i) higher airline sales; (ii) sales to new customers; and (iii) expanded sales to existing customers. Contract packaging volume increased significantly due to the introduction of new products and the expansion of business with a major customer. Consumer distribution channel volume decreased, due primarily to lower promotional activity for Fisher peanut products at a major customer

during the first half of fiscal 2005 and lost business with private label customers that would not accept price

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increases. Sales volume in the industrial distribution channel decreased due primarily to lower peanut sales as fiscal 2004 contained non-recurring significant sales of peanuts to other peanut shellers.

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 2005**		**Fiscal 2004**	
Consumer	$ 298,298	51.3%	$ 289,586	55.6%
Industrial	132,900	22.8	110,813	21.3
Food Service	61,294	10.5	48,969	9.4
Contract Packaging	45,181	7.8	33,074	6.3
Export	44,056	7.6	38,369	7.4
Total	$ 581,729	100.0%	$ 520,811	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 2005**	**Fiscal 2004**
Peanuts	22.4%	24.9%
Pecans	23.3	20.1
Cashews & Mixed Nuts	22.7	22.7
Walnuts	9.4	9.9
Almonds	13.5	12.3
Other	8.7	10.1
Total	100.0%	100.0%

Gross Profit. Gross profit in fiscal 2005 decreased 14.6% to $78.4 million from $91.8 million for fiscal 2004. Gross profit margin decreased to 13.5% for fiscal 2005 from 17.6% for fiscal 2004. Several factors led to the decrease in gross profit margin. Industrial sales are typically sold under calendar year fixed price contracts. Thus, industrial sales in the first half of fiscal 2005 that were priced based on prior year crop costs were fulfilled with current crop costs that were significantly higher, especially for pecans and almonds. Also, price increases in the consumer distribution channel due to the higher commodity costs were not fully instituted until the third quarter of fiscal 2005. Other contributing factors leading to the decrease in gross profit margin include: (i) contract packaging sales, which generally carry lower gross margins than the Company s overall gross margins, accounting for a greater percentage of sales in fiscal 2005 than fiscal 2004; (ii) unfavorable almond processing variances generated from the use of low quality almonds that were required to be purchased during the first quarter of fiscal 2005 to fulfill contracts; (iii) a higher than anticipated final settlement of $1.2 million with almond growers for the 2003 crop year; and (iv) the scrapping of $0.4 million of certain obsolete packaging materials in fiscal 2005.

Selling and Administrative Expenses. Selling and administrative expenses as a percentage of net sales decreased to 8.9% for fiscal 2005 from 9.8% for fiscal 2004. Selling expenses as a percentage of net sales decreased to 6.8% for fiscal 2005 from 7.2% for fiscal 2004. This decrease was due primarily to the fixed nature of certain of these expenses relative to a larger revenue base. The approximately $2.1 million increase in selling expenses for fiscal 2005 compared to fiscal 2004 was due primarily to higher freight and advertising costs of $2.1 million and $0.6 million, respectively, offset partially by a $1.1 million decrease in incentive compensation. Administrative expenses as a percentage of net sales decreased slightly to 2.1% for fiscal 2005 from 2.6% for fiscal 2004. The $1.1 million decrease in administrative expenses was due primarily to lower incentive compensation expenses of $2.7 million. No bonuses were paid for fiscal 2005 under the Company s incentive compensation program since the minimum earnings per share

level was not attained. Partially offsetting the decrease in incentive compensation costs was an increase in professional expenses of $0.7 million related primarily to corporate governance expenses.

***Income from Operations*.** Due to the factors discussed above, income from operations decreased to $26.6 million, or 4.6% of net sales, for fiscal 2005 from $41.1 million, or 7.9% of net sales, for fiscal 2004.

Interest Expense. Interest expense increased to $4.0 million for fiscal 2005 from $3.4 million for fiscal 2004. This increase was due primarily to the Company s issuance on December 16, 2004, of $65.0 million of ten year notes bearing interest at a fixed rate of 4.67% under the Note Agreement to fund a portion of the Company s facility consolidation project and for general working capital

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purposes. Average borrowings under the Prior Bank Credit Facility also increased to finance the increased purchase of inventories. Also, the interest rate on the Prior Bank Credit Facility increased in fiscal 2005 when compared to fiscal 2004 due to an increase in short-term interest rates.

Rental and Miscellaneous Income, Net. Net rental and miscellaneous income increased to $1.2 million for fiscal 2005 compared to $0.4 million for fiscal 2004. This increase is due to rental income received from the lease back of the Current Site to the seller. The office building at the Current Site is being leased for a minimum three year-period, with options for an additional seven years. The current monthly rental rate for the office building lease is $128 thousand per month. The warehouse building was leased back to the seller from April 15, 2005 to May 31, 2005 for $333 thousand per month. A separate portion of the warehouse building is being leased back to the seller for $43 thousand per month through September 2005.

Income Taxes. Income tax expense was $9.3 million, or 39.0% of income before income taxes, for fiscal 2005, compared to $14.5 million, or 39.0% of income before income taxes, for fiscal 2004.

Net Income. Net income was $14.5 million, or $1.37 basic per common share ($1.35 diluted), for fiscal 2005, compared to $22.6 million, or $2.35 basic per common share ($2.32 diluted), for fiscal 2004, due to the factors discussed above.

Liquidity and Capital Resources

General

The primary uses of cash are to fund the Company s current operations, including its facility consolidation project, fulfill contractual obligations and repay indebtedness. Also, various uncertainties could result in additional uses of cash, such as those described under 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 the Company sells. Current market trends in nut prices and crop estimates also impact nut procurement. Net cash provided by operating activities was $41.0 million for fiscal 2006 compared to net cash used in operating activities of $57.4 million for fiscal 2005. The increase is due primarily to a $93.1 million decrease in inventory purchases, primarily in pecans, peanuts, cashews and almonds. Inshell pecan purchases decreased due to a 26.5% decrease in the average cost of inshell pecans, with the quantity purchased relatively unchanged. Peanut purchases decreased due to higher quantities on hand at the beginning of fiscal 2006 compared to fiscal 2005 and to lower peanut sales in fiscal 2006 compared to fiscal 2005. Cashew purchases decreased due to sufficient quantities already on hand in inventories at the beginning of the fiscal year. Almond purchases decreased 45.2% due to a reduction in the demand for almonds in the industrial market. Overall nut purchases for fiscal 2006 compared to fiscal 2005 decreased by 23.9% in terms of pounds, and 22.7% in terms of dollars. The Company focused on inventory reduction during fiscal 2006 in order to capitalize on anticipated market declines in virtually all nuts, except for pecans, during fiscal 2007. The Company expects improved gross margins in fiscal 2007, as the lower costs of nuts will not be offset by corresponding decreases in sales prices.

The Company repaid $6.0 million of Long-term Debt during fiscal 2006 compared to $1.3 million during fiscal 2005.

Plans To Continue as a Going Concern

The Company s ability to continue as a going concern is dependent on the ability of the Company to realize a profit from future operations and, in the near term, either obtain funding from outside sources or on-going waivers from the Company s primary secured lenders. The reclassification of the Long-term Debt as a current liability, the extent of the losses in 2006, the non-compliance with loan covenants and uncertainties related to meeting future financial covenants in the Company s debt agreements raises substantial doubt as to whether the Company will continue as a going concern for a period of at least twelve months. The significant losses incurred for fiscal 2006 were caused in large part by the decline in the market price for almonds after the crop was procured. The Company recently announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operation conducted at its Gustine, California facility during the first quarter of calendar 2007. The Company decided to discontinue

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its almond handling operation in order to reduce the commodity risk that had such a significant negative financial impact in fiscal 2006 and to eliminate the significant labor costs associated with processing almonds purchased directly from growers that could not be recovered completely when the almonds were sold.

Management plans to address the Company s ability to continue as a going concern include: (1) discontinue purchasing almonds directly from growers and its almond handling operation to reduce commodity risk and unprofitable almond sales in the industrial distribution channel; (2) implement merchandising, retail operating and marketing plans to help to increase unit sales and gross margin; (3) conduct a profitability review of all items that it sells and reduce unprofitable items; (4) reduce manufacturing spending and costs associated with excess waste in its Gustine facility to improve gross margin; and (5) if necessary, attempt to obtain waivers from the Company s lenders with respect to any future events of default pursuant to the Company s financing arrangements.

Management believes that the implementation of the initiatives described above should enhance future operating performance, however, the discontinuance of the almond handling operation and the efforts to reduce unprofitable items will likely lead to a decline in net sales in the latter half of fiscal 2007 and fiscal 2008. Management estimates that net sales in its industrial channel could decline by approximately $30 million in fiscal 2008 as a result of discontinuing the almond handling operation. Virtually all of these sales were significantly unprofitable in fiscal 2006 and are expected to generate a nominal gross profit in fiscal 2007. The discontinuance of purchasing almonds directly from growers is expected to free up approximately $30 million in working capital for debt reduction and/or purchases of other nuts that typically deliver a higher gross profit than the gross profit from almonds.

In addition to the steps that management will take to improve operating performance in the future, the second quarter of fiscal 2007 marks the beginning of a new crop year. Acquisition costs for virtually all tree nuts, except pecans, are now substantially lower than they were for last year s crop. The reduction in acquisition costs should lead to lower short-term borrowing levels over the next four quarters. Though management anticipates that lower tree nut acquisition costs will ultimately lead to improved gross margin, there is no assurance that competitive pressures will not result in a decline in selling prices that exceed the decline in acquisition costs.

In summary, management believes that the steps that it will take to improve operating performance and decreased acquisition costs should enhance its ability to comply with debt covenants in the future.

The Company believes it has sufficient real estate to enable the refinancing of amounts due pursuant to the Note Agreement through conventional mortgages. Although management believes that it would be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods would prove successful. If the Company is not able to achieve these objectives, the Company s financial condition will be materially adversely affected.

Financing Arrangements

On July 27, 2006, the Company amended its Prior Bank Credit Facility into a secured facility (the Bank Credit Facility). The Bank Credit Facility provides for $100.0 million in secured borrowings and is comprised of (i) a working capital revolving loan which provides working capital financing of up to $93.6 million in the aggregate, and matures on July 25, 2009, and (ii) $6.4 million for the IDB Letter of Credit maturing on June 1, 2011 to secure the industrial development bonds which finances the construction of a peanut shelling plant in 1987. The Bank Credit Facility also allows for an amendment to increase the total amount of secured borrowings to $125.0 million at the election of the Company, the agent under the facility and one or more of the lenders under the facility. Borrowings under the Bank Credit Facility accrue interest at a rate determined pursuant to a formula based on the agent bank s reference rate, the prime rate and the Eurodollar rate. The interest rate varies depending upon the Company s quarterly financial performance, as measured by the available borrowing base. The Bank Credit Facility also waived all non-compliance with financial covenants under the previous Bank Credit Facility (the Prior Bank Credit Facility) that existed through June 29, 2006. As of June 29, 2006 the Company had $26.1 million of available credit under the Prior Bank Credit Facility.

The terms of the Bank Credit Facility include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios (if the borrowing base is below a designated level), restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. The lenders are entitled to require immediate

repayment of the Company s obligations under the Bank Credit Facility in the event the Company defaults on payments required under the Bank Credit Facility, non-compliance with the financial covenants, or

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upon the occurrence of certain other defaults by the Company under the Bank Credit Facility (including a default under the Note Agreement). The Company is required to pay termination fees of $2.0 and $1.0 million if it terminates the Bank Credit Facility in the first and second years of the agreement, respectively.

In order to finance a portion of the Company s facility consolidation project and to provide for the Company s general working capital needs, the Company received $65.0 million pursuant to a note purchase agreement (the Note Agreement) entered into on December 16, 2004 with various lenders. The Note Agreement requires semi-annual principal payments of $3.6 million plus interest through December 1, 2014. As of June 29, 2006, the outstanding balance on the Note Agreement was $61.4 million. The Company has the option to prepay amounts outstanding under the Note Agreement. Any such prepayment must be for at least 5% of the outstanding amount at the time of prepayment up to 100%. A prepayment fee would be incurred based on the differential between the interest rate in the Note Agreement and .50% over published U.S. treasury securities having a maturity equal to the remaining average life of the prepaid principal amounts.

On July 27, 2006, the Note Agreement was amended to, among other things, increase the interest rate from 4.67% to 5.67% per annum, waive all non-compliance with financial covenants through June 29, 2006, secure the Company s obligations and modify future financial covenants. Additionally, the Company is required to pay an excess leverage fee of up to an additional 1.00% per annum depending upon its leverage ratio and financial performance.

The terms of the Note Agreement, as amended, include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios, attain minimum quarterly adjusted EBITDA levels ($1.5 million, $5.5 million, $6.25 million and $8.0 million for the four quarters of fiscal 2007), restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. EBITDA is calculated in accordance with provisions under the Note Agreement and may be adjusted for certain items of income and expense, including gains and losses on the sale of assets, pension expense and certain other non-cash expenses. The lenders are entitled to require immediate repayment of the Company s obligations under the Note Agreement in the event the Company defaults on payments required under the Note Agreement, non-compliance with the financial covenants, or upon the occurrence of certain other defaults by the Company under the Note Agreement (including a default under the Bank Credit Facility).

The Company s unfavorable operating results caused non-compliance with certain restrictive covenants under its financing arrangements throughout fiscal 2006. Specifically, the Company did not achieve the minimum trailing fiscal four quarters EBITDA requirement, the maximum allowable funded debt to twelve-month EBITDA ratio, the minimum fixed charge coverage ratio and the monthly minimum working capital requirement under the Prior Bank Credit Facility and the Note Agreement for the second and third quarters of fiscal 2006 and at June 29, 2006. In July 2006, the Company entered into the Bank Credit Facility whereby the lenders waived all non-compliance with financial covenants under the terms of the Prior Bank Credit Facility through June 29, 2006. The Note Agreement was also amended to, among other things, waive all non-compliance with financial covenants through June 29, 2006, increase the interest rate from 4.67% to 5.67% per annum, secure the Company s obligations and modify future financial covenants.

The Company did not comply with the minimum quarterly EBITDA requirement contained in the Note Agreement for the first quarter of fiscal 2007. The Company received waivers from its lenders for this non-compliance with restrictive covenants. The Company is uncertain whether it will be able to comply with the covenants and warranties in its various financing arrangements, such as the EBITDA covenant contained in its Note Agreement, in the future. If the Company does not comply with the covenants or warranties in its financing arrangements in the future, the Company will seek waivers from its lenders; however, there can be no assurance that in such case waivers will be received or that such waivers will be on commercially reasonable terms that are not adverse to the Company. In light of the non-compliance with the restrictive covenant as a result of the Company s performance for the first quarter of fiscal 2007, and the uncertainty relating to the Company s ability to comply with covenants and warranties during future periods, amounts due pursuant to the Note Agreement for the first quarter of fiscal 2007 and subsequent quarters will be classified as currently due.

The Company s announcement on November 22, 2006 that the consolidated financial statements in its Form 10-K for fiscal 2006 filed on September 27, 2006 could no longer be relied upon caused a default pursuant to the Company s

Note Agreement and Bank Credit Facility. In addition, the Company did not file its quarterly report on Form 10-Q for the quarter ended September 28, 2006 with the Securities and Exchange Commission by the November 27, 2006 deadline required in the Note Agreement, which caused an additional event of default pursuant to the Note Agreement. The Company has received waivers from its lenders for these events of

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non-compliance. Non-compliance with any future covenant or warranty requirements would allow the lenders to demand immediate payment.. If waivers are not received or acceptable terms renegotiated with respect to future non-compliance with covenant or warranty requirements, the Company s ability to pursue its business plans, objectives and its ability to continue as a going concern would be adversely affected.

Obtaining alternative financing for amounts due pursuant to the Note Agreement would allow the Company to eliminate the restrictive EBITDA covenant that the Company did not comply with in the first quarter of fiscal 2007 as well as the related uncertainty as to whether the Company will be able to comply with such covenant in the future. The Company believes it would be able to secure alternative financing for the amounts due pursuant to the Note Agreement through conventional mortgages that do not contain a restrictive EBITDA covenant; however, there can be no assurance that such alternative financing could be obtained, that the new lenders would be willing to negotiate on terms acceptable to the Company, or that the Company would receive the consent for such refinancing required by its Bank Credit Facility. The Bank Credit Facility does not contain a restrictive EBITDA covenant; however, a default under the Note Agreement triggers a default under the Bank Credit Facility. If the Company attempts to secure alternative financing for amounts due under the Note Agreement, it does not anticipate that it would also attempt to secure alternative financing for amounts due pursuant to the Bank Credit Facility. Sustained losses by the Company, the inability to receive waivers from the Company s lenders, if necessary, the inability to secure alternative financing for amounts due pursuant to the Note Agreement, and/or future non-compliance with the covenants or warranties in the Company s Bank Credit Facility and Note Agreement would have a material adverse effect on the Company s financial position, results of operations and cash flows and raises substantial doubt with respect to the Company s ability to continue as a going concern.

The Company entered into a Security Agreement with the lenders under the Bank Credit Facility (the Lenders) and the noteholders under the Note Agreement (the Noteholders) whereby the Company granted collateral interests in certain of the Company s assets including, but not limited to, accounts receivable, inventories and equipment to the Lenders and Noteholders. The Company also granted liens against the Company s real property located in Elgin, Illinois and Gustine, California to the Lenders and Noteholders.

As of June 29, 2006, the Company had $5.9 million in aggregate principal amount of industrial development bonds outstanding, which was originally used to finance the acquisition, construction and equipping of the Company s 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, the Company is 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 the Company 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 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 the Company for redemption; (ii) proceeds from the remarketing of the bonds; (iii) proceeds from a drawing under the IDB Letter of Credit; or (iv) in the event funds from the foregoing sources are insufficient, a mandatory payment by the Company. Drawings under the IDB Letter of Credit to redeem bonds on the demand of any bondholder are payable in full by the Company upon demand of the lenders under the Bank Credit Facility. In addition, the Company is required to redeem the bonds in varying annual installments, ranging from $0.3 million in fiscal 2007 to $0.8 million in fiscal 2017. The Company is 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. The Company has the option, subject to certain conditions, to redeem the bonds at face value plus accrued interest, if any.

Capital Expenditures

The Company made $44.8 million of capital expenditures in fiscal 2006 compared to approximately $63.8 million in fiscal 2005. The decrease is due primarily to the $48.0 million purchase of the Current Site and $6.1 million of remediation costs under the Development Agreement incurred in fiscal 2005. $34.5 million of the fiscal 2006 capital expenditures related to the expansion and modification to the Current Site. The Company expects to spend an additional $25 $30 million on the facility consolidation project from fiscal 2007 to the expected completion date of December 2008. The total projected cost of the new facility is now estimated at approximately $110 million, which would be $15 million higher than original estimates. The projected additional spending includes approximately

$6.0 million for moving costs which will be expensed when incurred. Changes in the design of the facility and equipment requirements to adapt to changes in the industry and customer requirements primarily led to the projected increase in spending for the new facility. Capital expenditures for fiscal 2007 that are unrelated to the facility consolidation project are not expected to exceed $10 million.

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In fiscal 2005, in order to facilitate the facility consolidation project, the Company s Board of Directors appointed an independent board committee to explore alternatives with respect to the Company s existing leases for the properties owned by two related party partnerships. After negotiations with the partnerships, the independent committee approved a proposed transaction and, subsequently, the Company entered into various agreements with the partnerships. The agreements provided for an overall transaction whereby: (i) the current related party leases were terminated without penalty to the Company; (ii) the Company sold the portion of the Busse Road property that it owned to the partnerships for $2.0 million; and (iii) the Company sold its Selma, Texas properties to the partnerships for $14.3 million (an estimate of fair value which also slightly exceeds its carrying value) and leased the properties back. The sale price and rental rate for the Selma, Texas properties were determined by an independent appraiser to be at fair market 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. In addition, the Company has an option to repurchase the Selma property 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 sale of the Selma, Texas properties at fair market value to the related party partnerships was consummated during the first quarter of fiscal 2007.

The Company is restating its financial statements for the year ended June 29, 2006 to consolidate variable interest entities (two related party partnerships). The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been restated to consolidate the remaining partnership leasing a facility to the Company as of June 29, 2006. As a result, Current Maturities of Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The cumulative effect of this item of $0.5 million was recorded in Cost of Sales in the Statement of Operations for the year ended June 29, 2006.

In March 2006, the Company sold a facility owned by one of its consolidated partnerships, a variable interest entity. As the Company was the primary beneficiary of the partnership, upon consolidation of the partnership the deficit, which includes losses in excess of the minority interest, was absorbed by the Company. Upon sale of the facility by the partnership for a gain, the previously recognized losses attributable to the minority interest of $0.9 million were recovered by the Company to the extent such losses were previously allocated to the Company in consolidation and reduces any gain allocable to the partnership interest. Additionally as the partnership and not the Company was entitled to the net proceeds from the sale, the Company recorded an equal and offsetting minority interest amount for the partnership s gain on the sale of approximately $3.5 million in other income and expense.

Subsequent to year end, the Company sold a facility, a portion of which was owned directly by the Company and the remaining portion owned by one of its consolidated partnerships, a variable interest entity. The related party partnership then sold the property to a third party, which is leasing back the property to the Company for the time period necessary to transition operations to the new Elgin facility.

Also in July 2006, the Company sold its Arlington Heights and Arthur Avenue facilities for a combined $7.8 million in proceeds and is leasing back the facilities from the purchaser. The Arlington Heights facility is being leased back through December 2008 with a three to ninth month renewal option. The Arthur Avenue facility is being leased back through August 2008 with a three to nine month renewal option.

Capital Resources

As of June 29, 2006, the Company had $26.1 million of available credit under the Prior Bank Credit Facility. In July 2006, the Company received $9.8 million proceeds from the sale of its owned Chicago area facilities that are now being leased by the Company until operations are converted to the Current Site. In September 2006, the Company received $14.3 million in proceeds from the sale and leaseback at fair market value of its Selma, Texas facility to the related party partnerships. Scheduled long-term Debt payments, including interest for fiscal 2007 are $15.9 million. Scheduled operating lease payments are $2.6 million. See Plans To Continue as a Going Concern above.

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Contractual Cash Obligations

At June 29, 2006, the Company had the following contractual cash obligations for Long-term Debt (including scheduled interest payments), capital leases, operating leases, the revolving credit facility and purchase obligations (amounts in thousands):

	Total Restated	Less Than 1 Restated	1-3 Years Restated	3-5 Years Restated	More Than 5 Years Restated
Long-term debt	$ 90,672	$ 83,544	$ 1,307	$ 5,812	$ 9
Capital lease obligations	133	25	50	50	8
Minimum operating lease commitments	5,224	2,590	2,351	263	20
Revolving credit facility borrowings	64,341			64,341	
Purchase obligations	101,925	101,925			
Total contractual cash obligations	$ 262,295	$ 188,084	$ 3,708	$ 70,466	$ 37

The purchase obligations include $94,539 of inventory purchase commitments and $7,386 of construction costs related to the Company s new facility. Also, as a licensed United States Department of Agriculture Nut Warehouse Operator, the Company is responsible for delivering the loan value of the peanut inventory in its possession as represented on the warehouse receipt to the holder of the warehouse receipt on demand. The Company is responsible for any decline in the value of the peanut inventory due to decline in quality or shrinkage. No amounts related to a potential decline in the value of peanut inventory are included in the schedule above.

Critical Accounting Policies and Estimates

The accounting policies as disclosed in the Notes to Consolidated Financial Statements are applied on a going concern basis in the preparation of the Company s financial statements and accounting for the underlying transactions and balances. A going concern basis treats the realization of assets and the satisfaction of liabilities to be in the normal course of business. The policies discussed below are considered by the Company s management to be critical for an understanding of the Company s 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 3 of the Notes to Consolidated Financial Statements.

Preparation of this Annual Report on Form 10-K requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the Company s financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates, especially if there is doubt as to the appropriateness of using a going concern basis in the preparation of the consolidated financial statements. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Revenue Recognition

The Company recognizes 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. The Company sells its 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 on past experiences. The Company s 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.

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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 peanuts, pecans, 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, the Company records adjustments to write down the carrying values of inventories to fair market value. The results of the Company s shelling process can also result in changes to its inventory costs, for example based upon actual versus expected crop yields. The Company maintains significant inventories of bulk-stored inshell pecans, walnuts and peanuts. Quantities of inshell bulk-stored nuts are determined based on the Company s 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

The Company reviews long-lived assets to assess recoverability from projected undiscounted cash flows whenever events or changes in facts and circumstances indicate that the carrying value of the assets may not be recoverable, for example, in connection with the Company s facility consolidation project. 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 the Company has not recorded any impairment charges.

Introductory Funds

The ability to sell to certain retail customers often requires upfront payments to be made by the Company. 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 on a straight-line basis over the term of the contract. All contracts that are capitalized include refundability provisions. The Company expenses payments if no written arrangement exists.

Related Party Transactions

As discussed in Notes 8, 10 and 15 of the Notes to Consolidated Financial Statements, the Company leases space from related parties and transacts with other related parties in the normal course of business. The Company believes that these related party transactions are conducted on terms that are competitive with other non-related entities at the time the transactions are entered into.

Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 states that a conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement is conditional upon a future event that may or may not be within the control of the entity. FIN 47 became effective in fiscal 2006 for the Company. The adoption of FIN 47 did not have a material impact on the Company s financial position, results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. This statement becomes effective for accounting changes and corrections of errors made in fiscal 2007, but early adoption is permitted. SFAS 154 was applied in the correction of errors in the previously issued financial statements for the year ended June 29, 2006.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes . The Interpretation provides clarification related to accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation is effective for fiscal 2007. Adoption of FASB Interpretation No. 48 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

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In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108) which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective in fiscal 2007. Adoption of SAB 108 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

Forward Looking Statements

The statements contained in this Annual Report on Form 10-K/A, and in the Chairman s letter to stockholders accompanying the Annual Report on Form 10-K delivered to stockholders, that are not historical (including statements concerning the Company s expectations regarding market risk) are forward looking statements . These forward looking statements, which generally are followed (and therefore identified) by a cross reference to Item 1A Risk Factors or are identified by the use of forward looking words and phrases such as intends , may , believes and expects , represent the Company s present expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors, including the factors described under 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 the Company s control. Consequently, results actually achieved may differ materially from the expected results included in these statements.

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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:

We have completed integrated audits of John B. Sanfilippo & Son, Inc. s June 29, 2006 and June 30, 2005 consolidated financial statements and of its internal control over financial reporting as of June 29, 2006, and an audit of its June 24, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

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 subsidiary at June 29, 2006 and June 30, 2005, and the results of their operations and their cash flows for each of the three years in the period ended June 29, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company has restated its 2006 consolidated financial statements.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred significant losses from operations in 2006 and was in non-compliance with requirements of loan covenants for the quarter ended September 28, 2006, which raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation, effective July 1, 2005.

Internal control over financial reporting

Also, we have audited management s assessment, included in John B. Sanfilippo & Son, Inc. s accompanying Management s Report on Internal Control over Financial Reporting appearing under Item 9A, that John B. Sanfilippo & Son, Inc. did not maintain effective internal control over financial reporting as of June 29, 2006, because of the effect of not maintaining (1) controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis, (2) controls over the completeness and accuracy of the periodic goodwill impairment assessment, (3) controls over the accuracy of accounting for lease transactions and (4) a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company s financial reporting requirements, 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. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting 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. An audit of internal

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control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider 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 (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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management s assessment as of June 29, 2006:

(1) The Company did not maintain effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis. Specifically, there was inadequate sharing of information impacting the financial statements between the accounting, sales, and operating departments for consideration by the appropriate accounting personnel in the Company s financial forecast. This control deficiency resulted in the restatement of the 2006 consolidated financial statements, affecting the classification of long-term debt, valuation allowance associated with state tax net operating loss carryforwards and disclosures relating to the Company s ability to continue as a going concern.

(2) The Company did not maintain effective controls over the completeness and accuracy of the periodic goodwill impairment assessment. Specifically, effective controls were not maintained to ensure that a complete and accurate periodic impairment analysis was prepared, reviewed, and approved in order to identify and record impairments, as required under generally accepted accounting principles. This control deficiency resulted in the restatement of the Company s 2006 consolidated financial statements, affecting goodwill, goodwill impairment loss and disclosures.

(3) The Company did not maintain effective controls to ensure the accuracy of accounting for lease transactions. Specifically, effective controls were not maintained to ensure that an accurate analysis was prepared, reviewed and approved in order to properly evaluate the accounting for certain sale-leaseback transactions, as required under generally accepted accounting principles, affecting plant, property and equipment, current and long-term liabilities, gains relating to real estate sales, lease expense, interest expense and sale-leaseback transaction disclosures.

(4) The Company did not maintain a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company s financial reporting requirements. This control deficiency contributed to the material weaknesses discussed in items 1, 2 and 3 above and the restatement of the Company s 2006 consolidated financial statements.

These control deficiencies could result in a misstatement of the aforementioned account balances and disclosures that would result in a material misstatement of the annual or interim consolidated financials statements that would not be prevented or detected. Accordingly, management has determined that each of these control deficiencies constitutes a material weakness at June 29, 2006.

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These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Management and we previously concluded that the Company maintained effective internal control over financial reporting as of June 29, 2006. However, management subsequently has determined that the material weaknesses described above existed as of June 29, 2006. Accordingly, Management s Report on Internal Control over Financial Reporting has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report.

In our opinion, management s assessment that the Company did not maintain effective control over financial reporting as of June 29, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, John B. Sanfilippo & Son, Inc. has not maintained effective internal control over financial reporting as of June 29, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chicago, Illinois

September 27, 2006, except for the effects of the restatements, management plans regarding going concern and subsequent events discussed in Notes 1, 2 and 19, respectively, to the consolidated financial statements and the matter discussed in the penultimate paragraph of Management s Report on Internal Control over Financial Reporting, as to which the date is December 15, 2006

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JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED BALANCE SHEETS
June 29, 2006 and June 30, 2005
(dollars in thousands, except per share amounts)

	June 29, 2006 Restated	June 30, 2005
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,232	$ 1,885
Accounts receivable, less allowances of $3,766 and $3,729, respectively	35,481	39,002
Inventories	164,390	217,624
Income taxes receivable	6,427	
Deferred income taxes	2,984	1,742
Prepaid expenses and other current assets	2,248	1,663
TOTAL CURRENT ASSETS	213,762	261,916
PROPERTY, PLANT AND EQUIPMENT:		
Land	10,299	9,333
Buildings	64,146	66,288
Machinery and equipment	109,391	104,703
Furniture and leasehold improvements	5,440	5,437
Vehicles	2,897	3,070
Construction in progress	53,811	12,771
	245,984	201,602
Less: Accumulated depreciation	117,094	112,599
	128,890	89,003
Rental investment property, less accumulated depreciation of $924 and $128, respectively	27,969	28,766
TOTAL PROPERTY, PLANT AND EQUIPMENT	156,859	117,769
Intangible asset minimum retirement plan liability	6,197	
Cash surrender value of officers life insurance and other assets	5,440	4,468
Property held for sale/Development agreement	6,806	6,802
Goodwill		1,242
Brand name, less accumulated amortization of $6,072 and $5,645, respectively	1,848	2,275
TOTAL ASSETS	$ 390,912	$ 394,472

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

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JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED BALANCE SHEETS
June 29, 2006 and June 30, 2005
(dollars in thousands, except per share amounts)

	June 29, 2006 Restated	June 30, 2005
LIABILITIES & STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Revolving credit facility borrowings	$ 64,341	$ 66,561
Current maturities of Long-term Debt, including related party debt of $4,279 and $703, respectively	67,717	10,611
Accounts payable, including related party payables of $140 and $1,113, respectively	27,944	29,908
Book overdraft	14,301	3,047
Accrued payroll and related benefits	5,930	5,696
Accrued workers compensation	5,619	3,564
Other accrued expenses	5,293	3,970
Income taxes payable		795
TOTAL CURRENT LIABILITIES	191,145	124,152
LONG-TERM LIABILITIES:		
Long-term Debt, less current maturities, including related party debt of $0 and $3,929, respectively	5,618	67,002
Retirement plan	7,654	
Deferred income taxes	6,385	7,143
TOTAL LONG-TERM LIABILITIES	19,657	74,145
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, 8,112,099 and 8,100,349 shares issued and outstanding, respectively	81	81
Capital in excess of par value	99,820	99,164
Retained earnings	81,387	98,108
Treasury stock, at cost; 117,900 shares of Common Stock	(1,204)	(1,204)
TOTAL STOCKHOLDERS EQUITY	180,110	196,175
TOTAL LIABILITIES & STOCKHOLDERS EQUITY	$ 390,912	$ 394,472

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

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JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended June 29, 2006, June 30, 2005 and June 24, 2004
(*dollars in thousands, except for earnings per share*)

	Year Ended June 29, 2006 Restated	Year Ended June 30, 2005	Year Ended June 24, 2004
Net sales	$ 579,564	$ 581,729	$ 520,811
Cost of sales	542,447	503,300	428,967
Gross profit	37,117	78,429	91,844
Selling expenses	39,947	39,417	37,288
Administrative expenses	14,212	12,425	13,492
Goodwill impairment loss	1,242		
Total operating expenses	55,401	51,842	50,780
(Loss) income from operations	(18,284)	26,587	41,064
Other income (expense):			
Interest expense ($583, $699 and $775 to related parties, respectively)	(6,516)	(3,998)	(3,434)
Debt extinguishment fees			(972)
Rental and miscellaneous (expense) income, net	(610)	1,179	440
Total other expense, net	(7,126)	(2,819)	(3,966)
(Loss) income before income taxes	(25,410)	23,768	37,098
Income tax (benefit) expense	(8,689)	9,269	14,468
Net (loss) income	$ (16,721)	$ 14,499	$ 22,630
(Loss) earnings per common share:			
Basic	$ (1.58)	$ 1.37	$ 2.35
Diluted	$ (1.58)	$ 1.35	$ 2.32
Weighted average shares outstanding:			
Basic	10,584,764	10,568,400	9,648,456
Diluted	10,584,764	10,720,641	9,758,769

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

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JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the years ended June 29, 2006, June 30, 2005 and June 24, 2004
(*dollars in thousands*)

	Class A Common Stock		Common Stock		Capital in Excess of	Retained Earnings	Treasury	Total
	Shares	Amount	Shares	Amount	Par Value	Restated	Stock	Restated
Balance, June 26, 2003	3,667,426	$ 37	5,775,564	$58	$58,911	$ 60,979	$(1,204)	$118,781
Net income and comprehensive income						22,630		22,630
Stock option exercises			83,660	1	488			489
Tax benefit of stock option exercises					856			856
Conversion of Class A Common Stock	(1,070,000)	(11)	1,070,000	11				
Issuance of Common Stock			1,150,000	11	38,593			38,604
Balance, June 24, 2004	2,597,426	$ 26	8,079,224	$81	$98,848	$ 83,609	$(1,204)	$181,360
Net income and comprehensive income						14,499		14,499
Stock option exercises			21,125		198			198
Tax benefit of stock option exercises					118			118
Balance, June 30, 2005	2,597,426	$ 26	8,100,349	$81	$99,164	$ 98,108	$(1,204)	$196,175
Net loss and comprehensive loss						(16,721)		(16,721)
Stock option exercises			11,750		71			71
Tax benefit of stock option exercises					39			39
Stock-based compensation					546			546

expense								
Balance, June 29, 2006	2,597,426	$ 26	8,112,099	$81	$99,820	$ 81,387	$(1,204)	$180,110

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

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JOHN B. SANFILIPPO & SON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 29, 2006, June 30, 2005 and June 24, 2004
(*dollars in thousands*)

	Year Ended June 29, 2006 Restated	Year Ended June 30, 2005	Year Ended June 24, 2004
Cash flows from operating activities:			
Net (loss) income	$ (16,721)	$ 14,499	$ 22,630
Depreciation and amortization	10,000	10,501	11,190
Goodwill impairment loss	1,242		
Gain related to termination of capital lease with related party	(940)		
Loss (gain) on disposition of properties	141	(31)	24
Deferred income tax (benefit) expense	(2,000)	336	3,359
Tax benefit of stock option exercises		118	856
Stock-based compensation expense	546		
Change in current assets and current liabilities:			
Accounts receivable, net	3,521	(3,452)	(6,408)
Inventories	53,234	(90,165)	(15,443)
Prepaid expenses and other current assets	(585)	440	89
Accounts payable	(5,870)	13,520	2,730
Accrued expenses	3,612	(2,497)	3,028
Income taxes receivable/ payable	(7,222)	1,738	(474)
Other operating assets	1,993	(2,360)	(1,356)
Net cash provided by (used in) operating activities	40,951	(57,353)	20,225
Cash flows from investing activities:			
Purchases of property, plant and equipment	(10,244)	(8,628)	(6,880)
Facility expansion costs	(34,520)	(48,997)	(3,610)
Development agreement costs	(4)	(6,143)	(659)
Proceeds from disposition of assets	3,774	135	1
Cash surrender value of officers life insurance	(287)		
Net cash used in investing activities	(41,281)	(63,633)	(11,148)
Cash flows from financing activities:			
Borrowings under revolving credit facility	147,009	149,879	152,682
Repayments of revolving credit borrowings	(149,229)	(88,587)	(177,115)
Issuance of Long-term Debt		65,000	
Debt issuance costs		459	
Principal payments on Long-term Debt	(5,964)	(1,284)	(26,519)
Increase/(decrease) in book overdraft	11,254	(4,879)	2,419
Issuance of Common Stock under option plans	71	198	489
Net proceeds from issuance of Common Stock			38,604

Minority interest distribution	(2,503)		
Tax benefit of stock option exercises	39		
Net cash provided by (used in) financing activities	677	120,786	(9,440)
Net increase (decrease) in cash	347	(200)	(363)
Cash:			
Beginning of period	1,885	2,085	2,448
End of period	$ 2,232	$ 1,885	$ 2,085
Supplemental disclosures of cash flow information:			
Interest paid, net of interest capitalized	$ 6,217	$ 3,351	$ 3,999
Income taxes paid, excluding refunds of $2,193, $34 and $80, respectively	2,689	6,812	10,807
Capital lease obligations incurred	133		

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

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

NOTE 1 RESTATEMENTS

The Company s Report on Form 10-K for the year ended June 29, 2006 is being amended in order to restate the Company s Consolidated Financial Statements as of and for the year ended June 29, 2006. The restatement includes the reclassification of Long-term Debt as it relates to the note purchase agreement dated as of December 16, 2004, as amended (the Note Agreement), as Current Maturities of Long-term Debt. When the Company filed its financial statements for the year ended June 29, 2006 on Form 10-K on September 27, 2006, management concluded that $54.2 million of debt related to the Note Agreement was properly classified as Long-term Debt. That determination was based upon, among other things, a forecast (the Forecast) the Company prepared indicating that the Company would be able to attain the minimum quarterly adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) levels required by the Note Agreement throughout fiscal 2007, as well as satisfy other non-financial covenants contained in the Note Agreement and other borrowing arrangements. The Company did not achieve the minimum quarterly EBITDA covenant for the quarter ended September 28, 2006 by a material amount, which caused the Company to reevaluate the accuracy of the Forecast, the reasonableness of assumptions underlying the Forecast and its related conclusions with respect to expected covenant compliance. The Company subsequently determined that the Forecast did not take into consideration information available to the Company in connection with classifying amounts as current and non-current in its June 29, 2006 balance sheet and therefore the balance sheet classification of the Long-term Debt was not accurate. If such information had been incorporated in the Forecast and considered by management in evaluating the classification of affected debt obligations, the Company would have concluded that the Company would not meet the EBITDA covenant for the first quarter of fiscal 2007 and accordingly the obligations pursuant to the Note Agreement would have been classified as Current Maturities of Long-term Debt in the consolidated financial statements as of and for the year ended June 29, 2006.

As a result of the revised forecast described above, the Company also reevaluated its 2006 impairment test of the carrying value of goodwill and reconsidered the need for a valuation allowance with respect to state income tax net operating loss (NOL) carryforwards**.** The Company used a forecast in the original goodwill impairment test which failed to consider certain information and as a result led the Company to conclude the goodwill was not impaired. By using the revised forecast which considered all known facts, the Company has determined that the fair market value was below book value of their reporting unit. As a result the Company is restating its consolidated financial statements and related disclosures for fiscal 2006 to recognize an impairment of the remaining goodwill balance of $1.2 million. With respect to state income tax NOL carryforwards, there is a rebuttable presumption in a going concern circumstance that the remaining state NOL carryforwards will not be recoverable as future taxable income from sources other than the reversal of existing future taxable temporary differences and can not be relied upon as evidence supporting the recovery of the deferred tax asset. As a result, the Company has provided a valuation allowance of $0.5 million, which reflects the amount by which state income tax NOL carryforwards are in excess of state net deferred tax liabilities.

The Company is also restating its financial statements for the year ended June 29, 2006 to consolidate a variable interest entity. The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been adjusted to consolidate the one partnership leasing a facility to the Company as of June 29, 2006. As a result, Current Maturities of Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The cumulative effect of this item of $0.5 million was recorded in Cost of Sales in the Statement of Operations for the year ended June 29, 2006. In connection with the sale of the property in March 2006, the Company recognized a gain of approximately $3.5 million in other income and expense, together with an equal and offsetting amount applicable to the partnership s minority interest, as the partnership and not the Company is entitled to the net proceeds from the sale.

The restated financial statements as of and for the year ended June 29, 2006 adjust the individual financial statement line items detailed below and impact certain related footnote disclosures. Note 2 describes the ability of the Company to continue as a going concern.

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The effects of the restatements on the Consolidated Balance Sheet as of June 29, 2006 are summarized below:

	June 29, 2006 As Previously Reported	June 29, 2006 As Restated
Consolidated Balance Sheet		
Buildings	$ 63,438	$ 64,146
Total Property, Plant and Equipment	156,151	156,859
Goodwill	1,242	
Total Assets	391,446	390,912
Current Maturities of Long-term Debt	12,304	67,717
Total Current Liabilities	135,732	191,145
Long-term Debt, less current maturities	59,785	5,618
Long-term Deferred Income Taxes	5,885	6,385
Total Long-term Liabilities	73,324	19,657
Retained Earnings	83,667	81,387
Total Stockholders Equity	182,390	180,110
Total Liabilities & Stockholders Equity	391,446	390,912

The effects of the restatements on the Consolidated Statement of Operations for the year ended June 29, 2006 are summarized below:

	Year Ended June 29, 2006 As Previously Reported	Year Ended June 29, 2006 As Restated
Consolidated Statement of Operations		
Cost of Sales	$541,909	$542,447
Gross Profit	37,655	37,117
Goodwill Impairment Loss		1,242
Total Operating Expenses	54,159	55,401
Loss from Operations	(16,504)	(18,284)
Loss Before Income Taxes	(23,630)	(25,410)
Income Tax Benefit	9,189	8,689
Net Loss	(14,441)	(16,721)
Loss per Common Share basic and diluted	(1.36)	(1.58)

The effects of the restatements in the Consolidated Statement of Cash Flows for the year ended June 29, 2006 are summarized below:

	Year Ended June 29, 2006 As Previously Reported	Year Ended June 29, 2006 As Restated
Consolidated Statement of Cash Flows		
Net (loss) income	$(14,441)	$(16,721)
Goodwill impairment loss		1,242
Deferred income tax (benefit)/expense	(2,500)	(2,000)
Other operating assets	1,455	1,993
Proceeds from disposition of assets	24	3,774

Net cash used in investing activities	(45,031)	(41,281)
Principal payments on Long-term Debt	(4,717)	(5,964)
Minority interest distribution		(2,503)
Net cash provided by financing activities	4,427	677

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NOTE 2 MANAGEMENT S PLANS REGARDING GOING CONCERN

The Company s ability to continue as a going concern is dependent on the ability of the Company to realize a profit from future operations and, in the near term, either obtain funding from outside sources or on-going waivers from the Company s primary secured lenders. The reclassification of the Long-term Debt as a current liability, the extent of the losses in 2006, the non-compliance with loan covenants and uncertainties related to meeting future financial covenants in the Company s debt agreements, as further discussed in Note 19, raises substantial doubt as to whether the Company will be able to continue as a going concern for a period of at least twelve months. The significant losses incurred for fiscal 2006 were caused in large part by the decline in the market price for almonds after the crop was procured. The Company recently announced that it will no longer purchase almonds directly from growers and will discontinue its almond handling operation conducted at its Gustine, California facility during the first quarter of calendar 2007. The Company decided to discontinue its almond handling operation in order to reduce the commodity risk that had such a significant negative financial impact in fiscal 2006 and to eliminate the significant labor costs associated with processing almonds purchased directly from growers that could not be recovered completely when the almonds were sold.

Management plans to address the Company s ability to continue as a going concern include: (1) discontinue purchasing almonds directly from growers and its almond handling operation to reduce commodity risk and unprofitable almond sales in the industrial distribution channel; (2) implement merchandising, retail operating and marketing plans to help to increase unit sales and gross margin; (3) conduct a profitability review of all items that it sells and reduce unprofitable items; (4) reduce manufacturing spending and costs associated with excess waste in its Gustine facility to improve gross margin; and (5) if necessary, attempt to obtain waivers from the Company s lenders with respect to any future events of default pursuant to the Company s financing arrangements.

Management believes that the implementation of the initiatives described above should enhance future operating performance, however, the discontinuance of the almond handling operation and the efforts to reduce unprofitable items will likely lead to a decline in net sales in the latter half of fiscal 2007 and fiscal 2008. Virtually all of these sales were significantly unprofitable in fiscal 2006 and are expected to generate a nominal gross profit in fiscal 2007. The discontinuance of purchasing almonds directly from growers is expected to free up working capital for debt reduction and/or purchases of other nuts that typically deliver a higher gross profit than the gross profit from almonds. In addition to the steps that management will take to improve operating performance in the future, the second quarter of fiscal 2007 marks the beginning of a new crop year. Acquisition costs for virtually all tree nuts, except pecans, are now substantially lower than they were for last year s crop. The reduction in acquisition costs should lead to lower short-term borrowing levels over the next four quarters. Though management anticipates that lower tree nut acquisition costs will ultimately lead to improved gross margin, there is no assurance that competitive pressures will not result in a decline in selling prices that exceed the decline in acquisition costs.

In summary, management believes that the steps that it will take to improve operating performance and decreased acquisition costs should enhance its ability to comply with debt covenants in the future.

The Company believes it has sufficient real estate to enable the refinancing of amounts due pursuant to the Note Agreement through conventional mortgages. Although management believes that it would be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods would prove successful. If the Company is not able to achieve these objectives, the Company s financial condition will be materially adversely affected.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of John B. Sanfilippo & Son, Inc., JBSS Properties, LLC and JBS International, Inc., a previously wholly-owned subsidiary, which was dissolved in November, 2004 (collectively, the Company). Certain prior years amounts have been reclassified to conform to the current year s presentation, which provides more detail of

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certain financial statement line items. The Company s fiscal year ends on the last Thursday of June each year, and typically consists of fifty-two weeks (four thirteen week quarters), but the fiscal year ended June 30, 2005 consisted of fifty-three weeks, with the fourth quarter containing fourteen weeks. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. However, several factors indicate doubt as to whether the Company will be able to continue as a going concern.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 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 the Company feels 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.

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 peanuts, pecans, 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, the Company records adjustments to write down the carrying values of inventories to fair market value. The results of the Company s shelling process can also result in changes to its inventory costs, for example based upon actual versus expected crop yields. The Company maintains significant inventories of bulk-stored inshell pecans, walnuts and peanuts. Quantities of inshell bulk-stored nuts are determined based on the Company s 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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major improvements that extend the useful life 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 30 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 $9,207, $8,697 and $8,637 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. The Company capitalizes interest costs on its projects. The amount of interest capitalized was $1,808 for the year ended June 29, 2006 and was not material for the years ended June 30, 2005 and June 24, 2004.

Certain lease transactions with related parties relating to the financing of buildings are accounted for as capital leases, whereby the present value of future rental payments, discounted at the interest rate implicit in the lease, is recorded as a liability. See Note 8. A corresponding amount is capitalized as the cost of the assets and is depreciated on a straight-line basis over the estimated lives of the assets or over the lease terms which range from 20 to 30 years, whichever is shorter. The cost and accumulated depreciation of capitalized lease assets were $6,442 and $5,434, respectively at June 29, 2006, and $9,520 and $8,254 at June 30, 2005, respectively. During the fourth quarter of fiscal

2006, a $708 adjustment was recorded to increase the Company s carrying value of assets associated with the capital lease to the carrying value recorded on the books of the variable interest entity.

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Long-Lived Assets

The Company reviews long-lived assets to assess recoverability from projected undiscounted cash flows 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 the Company has not recorded any impairment charges. In connection with the Company s facility consolidation project, management performed a review of assets in its existing Chicago area facilities. There was no impairment of these assets, however, the useful lives of certain assets were adjusted to the remaining time that the assets are expected to be utilized.

Facility Consolidation Project

In April 2005, the Company acquired property to be used for its facility consolidation project (the Current Site). Two buildings are located on the Current Site, one of which is an office building of which 41.5% is being leased back to the seller for a minimum period of three years. The Company is actively seeking tenants to lease the remaining portion of the office building. The other building, a warehouse, has been expanded and is being modified to be used for the Company s principal processing facility and headquarters. The warehouse building was leased back to the seller for a one and one-half month period in fiscal 2005. 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 and the warehouse building, included in rental and miscellaneous expense (income), net, was an expense of $1,115 for the year ended June 29, 2006 and income of $503 for the year ended June 30, 2005. Gross rental income was $1,665 and $927 for the years ended June 29, 2006 and June 30, 2005, respectively. Future gross rental income under the office building operating lease is as follows for the years ending:

June 28, 2007	$ 1,536
June 26, 2008	1,216
	$ 2,752

Prior to acquiring the Current Site, the Company and certain related party partnerships entered into a Development Agreement with the City of Elgin, Illinois (the Development Agreement) for the development and purchase of the land where a new facility could be constructed (the Original Site). The Development Agreement provided for certain conditions, including but not limited to the completion of environmental and asbestos remediation procedures, the inclusion of the property in the Elgin enterprise zone and the establishment of a tax incremental financing district covering the property. The Company fulfilled its remediation obligations under the Development Agreement during fiscal 2005. On February 1, 2006, the Company and the related party partnerships entered into a Termination Agreement with the City of Elgin whereby the Development Agreement was terminated and the Company and the City of Elgin (the City) became obligated to convey the property to the Company and the partnerships within thirty days. The partnerships subsequently agreed to convey their respective interests in the Original Site to the Company by quitclaim deed without consideration. On March 28, 2006, JBSS Properties, LLC (JBSS LLC), a wholly owned subsidiary of the Company, acquired title to the Original Site by quitclaim deed, and JBSS LLC entered into an Assignment and Assumption Agreement (the Agreement) with the City. Under the terms of the Agreement, the City assigned to the Company all the City s remaining rights and obligations under the Development Agreement. The Company is currently marketing the Original Site to potential buyers, and expects a sale to be consummated in fiscal 2008. The Company s costs under the Development Agreement totaling $6,806 and $6,802 at June 29, 2006 and June 30, 2005, respectively, are recorded as Other Assets . The Company has reviewed the asset under the Development Agreement for realization, and concluded that no adjustment of the carrying value was required as of June 29, 2006 and June 30, 2005.

In fiscal 2005, in order to facilitate the facility consolidation project, the Company s Board of Directors appointed an independent board committee to explore alternatives with respect to the Company s existing leases for the properties

owned by two related party partnerships. After negotiations with the partnerships, the independent committee approved a proposed transaction and, subsequently, the Company entered into various agreements with the partnerships. The agreements provided for an overall transaction whereby: (i) the current related party leases were terminated without penalty to the Company; (ii) the Company sold the portion of the Busse Road

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property that it owned to the partnerships for $2.0 million; and (iii) the Company sold its Selma, Texas properties to the partnerships for $14.3 million (an estimate of fair value which also slightly exceeds its carrying value) and leased the properties back. The sale price and rental rate for the Selma, Texas properties were determined by an independent appraiser to be at fair market 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. In addition, the Company has an option to repurchase the Selma property 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 sale of the Selma, Texas properties at fair market value to the related party partnerships was consummated during the first quarter of fiscal 2007. The Company expects the Selma, Texas lease transaction to be accounted for similar to a capital lease.

The Company leased certain properties during 2006 from two related party partnerships (consolidated variable interest entities), one of which was terminated in March 2006 and the other terminated in July 2006. In March 2006, the Company sold a facility owned by one of its consolidated partnerships. As the Company was the primary beneficiary of the partnership, upon consolidation of the partnership the deficit, which includes losses in excess of the minority interest, was absorbed by the Company. Upon sale of the facility by the partnership for a gain, the previously recognized losses attributable to the minority interest of $0.9 million were recovered by the Company to the extent such losses were previously allocated to the Company in consolidation and reduced any gain allocable to the partnership interest. Additionally as the partnership and not the Company was entitled to the net proceeds from the sale, the Company recorded an equal and offsetting minority interest amount for the partnership s gain on the sale of approximately $3.5 million in other income and expense.

Subsequent to year end, the Company sold a facility, a portion of which was owned directly by the Company and the remaining portion owned by one of its consolidated partnerships, a variable interest entity. The related party partnership then sold the property to a third party, which is leasing back the property to the Company for the time period necessary to transition operations to the new Elgin facility.

Also in July 2006, the Company sold its Arlington Heights and Arthur Avenue facilities for a combined $7.8 million in proceeds and is leasing back the facilities from the purchaser. The Arlington Heights facility is being leased back through December 2008 with a three to ninth month renewal option. The Arthur Avenue facility is being leased back through August 2008 with a three to nine month renewal option.

Introductory Funds

The ability to sell to certain retail customers often requires upfront payments to be made by the Company. 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. The Company expenses payments if no written arrangement exists and amounts are not recoverable in the event of customer cancellation. Total introductory funds included in other assets and prepaid expenses and other current assets were $282 at June 29, 2006 and $710 at June 30, 2005. Amortization expense, which is recorded as a reduction in net sales, was $367, $1,173 and $1,820 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively.

Goodwill and Brand Name

Intangible asset consists of the Fisher brand name that was acquired in 1995. The Company is amortizing the brand name over a fifteen-year period on a straight-line basis with no estimated residual value. Annual amortization expense for each of the next four fiscal years is expected to be $427, with the remaining amount of $140 amortized in fiscal 2011. Amortization expense was approximately $427, $426 and $427 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively.

Goodwill represented the excess of the purchase price over the fair value of the net assets from the Company s acquisition of Sunshine Nut Co., Inc. which occurred in 1992. A goodwill impairment loss of $1,242 was recorded for the year ended June 29, 2006, as discussed in Note 1. Fair value, based on considerations of the quoted market price with an estimated control premium, and estimated cash flow forecasts of the Company s reporting unit, was determined to be below its net book value and there was no implied fair value of the Company s goodwill.

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Fair Value of Financial Instruments

Based on borrowing rates presently available to the Company under similar borrowing arrangements, the Company believes the recorded amount of its Long-term Debt obligations approximates fair market value. The carrying amount of the Company s other financial instruments approximates their estimated fair value based on market prices for the same or similar type of financial instruments.

Revenue Recognition

The Company recognizes 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. The Company sells its 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 the Company s 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%, 18% and 19% of the Company s net sales for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. Net accounts receivable from Wal-Mart Stores, Inc. were $4,444 and $4,225 at June 29, 2006 and June 30, 2005, 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 incentives have not been significant and are recorded at the time of distribution. The Company expenses the costs of advertising, which include newspaper and other advertising activities, as incurred. Advertising expenses for the years ended June 29, 2006, June 30, 2005 and June 24, 2004 were $2,297, $1,896 and $1,344, 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 29, 2006, June 30, 2005 and June 24, 2004, shipping and handling costs totaled $18,767, $19,004 and $16,696, respectively.

Income Taxes

The Company accounts 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 the Company s financial statements or tax returns. Such items give rise to differences in the financial reporting and tax basis of assets and liabilities. 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, the Company considers all expected future events other than changes in tax law or rates.

Segment Reporting

The Company operates in a single reportable operating segment that consists of selling various nut products procured and processed in a vertically integrated manner through multiple distribution channels.

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Earnings per Share

Earnings per common share is calculated using the weighted average number of shares of Common Stock and Class A Common 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 29, 2006	Year Ended June 30, 2005	Year Ended June 24, 2004
Weighted average shares outstanding	basic	10,584,764	10,568,400	9,648,456
Effect of dilutive securities:				
Stock options			152,241	110,313
Weighted average shares outstanding	diluted	10,584,764	10,720,641	9,758,769

All outstanding options were excluded from the calculation of diluted earnings per share for the year ended June 29, 2006 due to the net loss for the year. Also excluded from the computation of diluted earnings per share for the years ended June 30, 2005 and June 24, 2004 were options with exercise prices greater than the average market price of the Common Stock. Total options excluded from the calculation of diluted earnings per share were 324,815, 3,226 and 7,286 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. These options had weighted average exercise prices of $13.70, $31.61 and $18.11, respectively.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the requisite service period. FAS 123R eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which generally resulted in no compensation expense recorded in the financial statements related to the grant of stock options to employees if certain conditions were met.

Effective for the first quarter of fiscal 2006, the Company adopted SFAS 123R using the modified prospective method, which requires the Company to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Accordingly, prior period amounts presented herein have not been restated to reflect the adoption of SFAS 123R. Prior to the adoption of SFAS 123R, the Company included all tax benefits resulting from the exercise of stock options in operating cash flows in its consolidated statements of cash flows. In accordance with SFAS 123R, for the period beginning with first quarter of fiscal 2006, the Company includes the tax benefits from the exercise of stock options in financing cash flows in its consolidated statement of cash flows.

For the years ended June 30, 2005 and June 24, 2004, the Company accounted for stock-based compensation in accordance with APB 25 and related interpretations using the intrinsic value method, which resulted in no compensation cost for options granted for fiscal 2005 and fiscal 2004. The Company had adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 123 (SFAS 123) with respect to options granted to employees.

The Company s reported net income and earnings per share would have changed to the pro forma amounts shown below if compensation cost had been determined based on the fair value at the grant dates in accordance with SFAS Nos. 123 and 148, Accounting for Stock-Based Compensation .

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	Year Ended June 30, 2005	Year Ended June 24, 2004
Net (loss) income applicable to common stockholders, as reported	$ 14,499	$ 22,630
Add: Compensation expense included in reported net income		
Deduct: Stock-based employee compensation determined under fair value based method for all awards	353	251
Pro forma net income applicable to common stockholders	$ 14,146	$ 22,379
Basic earnings per common share:		
As reported	$ 1.37	$ 2.35
Pro forma	$ 1.34	$ 2.32
Diluted earnings per common share:		
As reported	$ 1.35	$ 2.32
Pro forma	$ 1.32	$ 2.29

The fair value of each option is estimated on the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions:

	Year Ended June 29, 2006	Year Ended June 30, 2005	Year Ended June 24, 2004
Average risk-free interest rate	4.1%	3.3%	3.6%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility (based on historical)	54.7%	53.0%	35.0%
Expected life (years)	5.7	5.0	5.0

The weighted average fair value per option granted was $9.85, $8.76 and $6.23 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively.

Comprehensive Loss (Income)

The Company accounts for comprehensive income in accordance with SFAS 130, Reporting Comprehensive Income . The Company currently has no components of comprehensive income that are required to be disclosed separately. Consequently, comprehensive income equals net income for all periods presented.

Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. FIN 47 states that a conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement is conditional upon a future event that may or may not be within the control of the entity. FIN 47 became effective in fiscal 2006 for the Company. The adoption of FIN 47 did not have a material impact on the Company s financial position, results of operations and cash flows.

In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. This statement becomes effective for accounting changes and corrections of errors made in fiscal 2007, but early adoption is permitted. SFAS 154 was applied in the correction of errors in the previously issued financial statements for the year ended June 29, 2006.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes . The Interpretation provides clarification related to accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation

is effective for fiscal 2007. Adoption of FASB Interpretation No. 48 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

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In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108) which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective in fiscal 2007. Adoption of SAB 108 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

NOTE 4 NATURE OF BUSINESS

John B. Sanfilippo & Son, Inc. is 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 Company s *Fisher, Evon s, Flavor Tree, Sunshine Country, Texas Pride* and *Tom Scott* brand names. The Company also markets and distributes, and in most cases manufactures or processes, a diverse product line of food and snack items, including peanut butter, candy and confections, natural snacks and trail mixes, sunflower seeds, corn snacks, sesame sticks and other sesame snack products. The Company has plants located throughout the United States. Revenues are generated from sales to a variety of customers, including several major retailers and the U.S. government which are made on an unsecured basis.

NOTE 5 COMMON STOCK OFFERING

In April 2004, the Company completed an underwritten public offering of an additional 1,150,000 shares of Common Stock at a price of $35.75 per share, or $34.00 per share after the underwriting discount. Total net proceeds to the Company were approximately $38.6 million, after deducting offering costs. The net proceeds were used to prepay Long-term Debt and to reduce outstanding balances under the Company s bank credit facility. See Notes 7 and 8.

In conjunction with the offering, an equal number of shares were sold by selling stockholders, all of whom are directors and executive officers of the Company or are related to directors and executive officers of the Company. Prior to the offering, 1,070,000 shares of Class A Stock were converted to Common Stock by the selling stockholders for the offering. The selling stockholders also sold 80,000 shares of previously outstanding Common Stock.

In connection with the offering, the holders of Class A Stock entered into an agreement with the Company under which they have waived their right to convert Class A Stock to Common Stock and agreed not to transfer or otherwise dispose of their shares of Class A Stock in a manner that could result in conversion of such shares into Common Stock pursuant to the Company s certificate of incorporation. These agreements were required since the number of authorized shares of Common Stock was insufficient to allow for the conversion of all outstanding shares of Class A Stock. These agreements remained in effect until the Company s certificate of incorporation was amended to increase the number of authorized shares of Common Stock from 10,000,000 to 17,000,000 at the Company s 2004 annual meeting.

NOTE 6 INVENTORIES

Inventories consist of the following:

	June 29, 2006	June 30, 2005
Raw material and supplies	$ 77,209	$ 99,851
Work-in-process and finished goods	87,181	117,773
Total	$ 164,390	$ 217,624

NOTE 7 REVOLVING CREDIT FACILITY

The Company s unsecured bank credit facility that was effective at June 29, 2006 (the Prior Bank Credit Facility) was comprised of (i) a working capital revolving loan which provided working capital financing of up to $93.6 million in the aggregate, and was scheduled to mature, as amended, on July 31, 2006, and (ii) a $6.4 million letter of credit maturing on June 1, 2011 (the IDB Letter of Credit) to secure the industrial development bonds which financed the construction of a peanut shelling plant in 1987 as is described in Note 8. The Prior Bank Credit Facility was amended on April 29, 2006 to extend a temporary $20.0 million increase in the total availability under the facility through July 31, 2006. Borrowings under the working capital revolving loan accrued interest at a rate

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(the weighted average of which was 8.08% at June 29, 2006) determined pursuant to a formula based on the agent bank s quoted rate and the Eurodollar Interbank rate. As of June 29, 2006 the Company had $26.1 million of available credit under the Prior Bank Credit Facility.

The Prior Bank Credit Facility, as amended, was scheduled to mature on July 31, 2006 and included certain restrictive covenants that, among other things: (i) required the Company to maintain specified financial ratios; (ii) limited the Company s annual capital expenditures; and (iii) required that Jasper B. Sanfilippo (the Company s Chairman of the Board) and Mathias A. Valentine (a director and the Company s former President) together with their respective immediate family members and certain trusts created for the benefit of their respective sons and daughters, continue to own shares representing the right to elect a majority of the directors of the Company. In addition, the Prior Bank Credit Facility limited dividends to the lesser of (a) 25% of net income for the previous fiscal year, or (b) $5.0 million, and prohibited the Company from redeeming shares of capital stock. For the quarters ended December 29, 2005 and March 30, 2006 and as of June 29, 2006, the Company did not achieve the minimum trailing fiscal four quarters earnings before interest, taxes, depreciation and amortization (EBITDA) requirement, the maximum allowable funded debt to twelve-month EBITDA ratio, the minimum fixed charge coverage ratio and the monthly minimum working capital requirement under the Prior Bank Credit Facility. The Company received waivers for all non-compliance with restrictive financial covenants from its lenders under the Prior Bank Credit Facility during fiscal 2006.

On July 27, 2006, the Company entered into an amended and restated bank credit facility (the Bank Credit Facility). The secured $100.0 million Bank Credit Facility replaced the Prior Bank Credit Facility. The Bank Credit Facility is comprised of (i) a working capital revolving loan which provides working capital financing of up to $93.6 million in the aggregate, and matures on July 25, 2009, and (ii) $6.4 million for the IDB Letter of Credit maturing on June 1, 2011 to secure the industrial development bonds which financed the construction of a peanut shelling plant in 1987 as is described in Note 8. The Bank Credit Facility also allows for an amendment to increase the total amount of secured borrowings to $125.0 million at the election of the Company, the agent under the facility and one or more of the lenders under the facility. Borrowings under the Bank Credit Facility are based upon an eligible borrowing base tied to qualifying receivables and inventory and accrue interest at a rate determined pursuant to a formula based on the agent bank s reference rate, the prime rate and the Eurodollar rate. The interest rate varies depending upon the Company s quarterly financial performance, as measured by the available borrowing base. The Bank Credit Facility also waived all non-compliance with financial covenants under the Prior Bank Credit Facility through June 29, 2006. The terms of the Bank Credit Facility include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios, restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. The lenders are entitled to require immediate repayment of the Company s obligations under the Bank Credit Facility in the event the Company defaults in the payments required under the Bank Credit Facility, non-compliance with the financial covenants, or upon the occurrence of certain other defaults by the Company under the Bank Credit Facility (including a default under the Note Agreement, as defined in Note 8). The Company is required to pay termination fees of $2.0 and $1.0 million if it terminates the Bank Credit Facility in the first and second years of the agreement, respectively.

The Company entered into a Security Agreement with the lenders under the Bank Credit Facility (the Lenders) and the noteholders under the Note Agreement (the Noteholders) whereby the Company granted collateral interests in certain of the Company s assets including, but not limited to, accounts receivable, inventories and equipment to the Lenders and Noteholders. The Company also granted liens against the Company s real property located in Elgin, Illinois and Gustine, California to the Lenders and Noteholders.

See Note 19 for subsequent events.

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NOTE 8 LONG-TERM DEBT

Long-term Debt consists of the following:

	June 29, 2006 Restated	June 30, 2005
Notes payable, interest payable semiannually at 4.67%, principal payable in semi-annual installments of $3,611 beginning on June 1, 2006	$ 61,389	$ 65,000
Industrial development bonds, collateralized by building, machinery and equipment with a cost aggregating $8,000	5,865	6,185
Capitalized lease obligations/mortgages involving related parties	4,279	4,632
Arlington Heights facility, first mortgage, principal and interest payable at 8.875%, due in monthly installments of $22 through October 1, 2015	1,684	1,796
Capitalized equipment leases	118	
	73,335	77,613
Less: Current maturities	(67,717)	(10,611)
Total Long-term Debt	$ 5,618	$ 67,002

The Company financed the construction of a peanut shelling plant with industrial development bonds in 1987. On June 1, 2006, the Company 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, the Company is 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 the Company 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 the Company to redeem the bonds in varying annual installments, ranging from $345 to $780 annually through 2017. The Company is 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. The Company has the option at any time, however, subject to certain conditions, to redeem the bonds at face value plus accrued interest, if any.

In order to finance a portion of the Company s facility consolidation project and to provide for the Company s general working capital needs, the Company received $65.0 million pursuant to a note purchase agreement (the Note Agreement) entered into on December 16, 2004 with various lenders. For the quarters ended December 29, 2005 and March 30, 2006 and as of June 29, 2006, the Company did not achieve the minimum trailing fiscal four quarters EBITDA requirement, the maximum allowable funded debt to twelve-month EBITDA ratio, the minimum fixed charge coverage ratio and the monthly minimum working capital requirement under the Note Agreement. The Company received waivers for all non-compliance with restrictive financial covenants from its lenders under the Note Agreement during fiscal 2006.

On July 27, 2006, the Note Agreement was amended to, among other things, increase the interest rate from 4.67% to 5.67% per annum, waive all non-compliance with financial covenants through June 29, 2006, secure the Company s obligations and modify future financial covenants. Additionally, the Company is required to pay an excess leverage fee of up to an additional 1.00% per annum depending upon its leverage ratio and financial performance. The Note Agreement requires semi-annual principal payments of $3.6 million plus interest through December 1, 2014. The Company has the option to prepay amounts outstanding under the Note Agreement. Any such prepayment must be for at least 5% of the outstanding amount at the time of prepayment up to 100%. A prepayment fee would be incurred based on the differential between the interest rate in the Note Agreement and .50% over published U.S. treasury securities having a maturity equal to the remaining average life of the prepaid principal amounts.

The terms of the Note Agreement, as amended, include certain restrictive covenants that, among other things, require the Company to maintain certain specified financial ratios, attain minimum quarterly adjusted EBITDA levels

($1.5 million, $5.5 million, $6.25 million and $8.0 million for the four quarters of fiscal 2007), restrict certain investments, indebtedness and capital expenditures and restrict certain cash dividends, redemptions of capital stock and prepayment of certain indebtedness of the Company. EBITDA is calculated in accordance with provisions under the Note Agreement and may be adjusted for certain items of income and expense, including gains and losses on the sale of assets, pension expense and certain other non-cash expenses. The lenders are entitled to require immediate repayment of the Company s obligations under the Note Agreement in the event the Company defaults on

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payments required under the Note Agreement, non-compliance with the financial covenants, or upon the occurrence of certain other defaults by the Company under the Note Agreement (including a default under the Bank Credit Facility). The Company entered into a Security Agreement with the lenders under the Bank Credit Facility (the Lenders) and the noteholders under the Note Agreement (the Noteholders) whereby the Company granted collateral interests in certain of the Company s assets including, but not limited to, accounts receivable, inventories and equipment to the Lenders and Noteholders. The Company also granted liens against the Company s real property located in Elgin, Illinois and Gustine, California to the Lenders and Noteholders.

In conjunction with the Company s facility consolidation project, the Company sold its Arlington Heights facility in July 2006. At that time, the Company prepaid its outstanding balances under the Arlington Heights mortgage. The Company is leasing back the facility until operations are fully transitioned to the Current Site. The entire balance of the mortgage of $1,684 is classified as current maturities at June 29, 2006.

Aggregate maturities of Long-term Debt (restated), excluding capitalized lease obligations with related parties, are as follows for the years ending:

June 28, 2007	$ 63,437
June 26, 2008	396
June 25, 2009	427
June 24, 2010	463
June 30, 2011	4,324
Thereafter	9
Total	$ 69,056

The Company leases a building under a capital lease from an entity that is owned by certain directors, officers and stockholders of the Company. The carrying value of the capital lease was adjusted by $1,246 during the fourth quarter of fiscal 2006 to the mortgage amount carried by a variable interest entity. In conjunction with the Company s facility consolidation project, the lease was terminated in July 2006 and the Company is leasing back the building from the third party that purchased the building from the related party. The entire balance of $4,279 under the capital lease/related party mortgage is classified as current maturities at June 29, 2006.

See Note 19 for subsequent events.

NOTE 9 INCOME TAXES

The (benefit) provision for income taxes for the years ended June 29, 2006, June 30, 2005 and June 24, 2004 are as follows:

	June 29, 2006 Restated	**June 30, 2005**	**June 24, 2004**
Current	$ (6,689)	$ 8,933	$ 11,109
Deferred	(2,000)	336	3,359
Total (benefit) provision for income taxes	$ (8,689)	$ 9,269	$ 14,468

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 29, 2006, June 30, 2005 and June 24, 2004 are as follows:

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	June 29, 2006 Restated	June 30, 2005	June 24, 2004
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.8	5.0	4.8
Goodwill impairment loss	(1.9)		
Valuation allowance for state net operating loss carryforwards	(2.0)		
Other	(1.7)	(1.0)	(0.8)
Effective tax rate	34.2%	39.0%	39.0%

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

	June 29, 2006 Restated		June 30, 2005	
	Asset	Liability	Asset	Liability
Current				
Accounts receivable	$ 222	$	$ 455	$
Employee compensation	548		540	
Inventory	975		90	
Workers compensation	1,239		644	
Other			13	
Total current	$ 2,984	$	$ 1,742	$
Long term				
Depreciation	$	$ (8,825)	$	$ (9,055)
Capitalized leases	780		1,336	
Operating loss carryforwards, less valuation allowance of $500 and $0	427			
Retirement plan	554			
Other	679		576	
Total long-term	$ 2,440	$ (8,825)	$ 1,912	$ (9,055)
Total	$ 5,424	$ (8,825)	$ 3,654	$ (9,055)

The Company evaluates the realization of deferred tax assets by considering its historical taxable income and future taxable income based upon the reversal of deferred tax liabilities. At June 29, 2006, other than the state net operating loss carryforwards, the Company believes that its deferred tax assets are fully realizable.

At June 29, 2006 the Company has approximately $13,000 of operating loss carryforwards for state income tax purposes. All of the operating loss carryforward relates to losses generated during the year ended June 29, 2006. The losses generally have a carryforward period of between 5 and 10 years before expiration. The Company has provided a valuation allowance related to realization of such operating loss carryforwards, as it is more likely than not such losses may expire unused in the future given management s going concern assessment. There is a rebuttable presumption in a going concern circumstance that the remaining state NOL carryforwards will not be recoverable as future taxable income from sources other than the reversal of existing future taxable temporary differences and can not be relied upon as evidence supporting the recovery of the deferred tax asset. As a result the Company has provided a

valuation allowance, which reflects the amount by which state income tax NOL carryforwards are in excess of state net deferred tax liabilities.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. The Act provides for a deduction for income from qualified domestic production activities, which will be phased in from calendar 2005 to 2010. This provision is also subject to a number of limitations which affect the effective tax rate in fiscal 2007 and later.

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NOTE 10 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases buildings and certain equipment pursuant to agreements accounted for as operating leases. Rent expense under these operating leases aggregated $2,342, $2,377 and $1,319 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. Aggregate non-cancelable lease commitments under these operating leases, including significant leases entered into in the first quarter of fiscal 2007, are as follows for the years ending:

June 28, 2007	$ 2,590
June 26, 2008	1,766
June 25, 2009	585
June 24, 2010	179
June 30, 2011	84
Thereafter	20
	$ 5,224

Litigation

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

Facility Consolidation Project

In August 2005, the Company entered into a contract with a general contractor for the construction of a new facility. The total amount committed under the contract is estimated to be $23,198, of which $19,757 was incurred in fiscal 2006. The Company anticipates $20 $25 million in remaining capital expenditures related to the new facility from June 30, 2006 through the scheduled completion date of December 31, 2008. The total projected cost of the new facility is now estimated at approximately $110 million, which would be $15 million higher than original estimates. Accounts payable at June 29, 2006 includes $3,906 related to capital expenditures for the facility consolidation project. This amount has been excluded from the amount shown as facility expansion costs in the investing activities section of the statement of cash flows.

NOTE 11 STOCKHOLDERS EQUITY

The Company s 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 the 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 the 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.

NOTE 12 STOCK OPTION PLANS

At the Company s annual meeting of stockholders on October 28, 1998, the Company s stockholders approved a new stock option plan (the 1998 Equity Incentive Plan) under which awards of non-qualified options and stock-based awards may be made. There are 700,000 shares of common stock authorized for issuance to certain key employees and outside directors (i.e. directors who are not employees of the Company or any of its subsidiaries). The exercise price of the options will be determined as set forth in the 1998 Equity Incentive Plan by the Board of Directors. The exercise price for the stock options must be at least the fair market value of the

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Common Stock on the date of grant, with the exception of nonqualified stock options, which can have an exercise price equal to at least 50% of 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. 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 Code. At June 29, 2006, there were 199,125 options available for distribution under this plan. Option exercises are satisfied through the issuance of new shares of Common Stock.

The Company determines fair value of such awards using the Black-Scholes option-pricing model. The following weighted average assumptions were used to value the Company s grants during fiscal 2006: 3.75 and 6.25 years expected life; expected stock volatility from 53.5% to 58.4%; risk-free interest rate of 4.07% to 4.69%; expected forfeitures of 0%; 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 either the 3.75 or 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 on the Company s expectations and past experiences. Expected dividend yield was based on the Company s dividend policy at the time the options were granted.

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 $546, or $.05 per share (basic and diluted) and the related tax benefit for non-qualified stock options was $39 for fiscal 2006. Prior to the adoption of SFAS123R, the tax benefits for deductions resulting for stock option exercises were presented as cash flows from operating activities. With the adoption of SFAS 123R, the deductions for tax benefits are presented as financing cash flows.

Activity in the Company s stock option plans for fiscal 2006 was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at June 26, 2003	253,775	$ 6.33
Activity:		
Granted	100,500	16.89
Exercised	(83,660)	6.01
Forfeited	(7,300)	8.67
Outstanding at June 24, 2004	263,315	$ 10.41
Activity:		
Granted	72,000	18.55
Exercised	(21,125)	9.36
Outstanding at June 30, 2005	314,190	$ 12.37
Activity:		
Granted	66,000	18.73
Exercised	(11,750)	6.03
Forfeited	(43,625)	13.82
Outstanding at June 29, 2006	324,815	$ 13.70

Exercisable at June 29, 2006	142,815	$	10.49
Exercisable at June 30, 2005	95,065	$	8.16
Exercisable at June 24, 2004	53,440	$	5.33

The weighted average fair value of options granted and the total intrinsic value of all options exercised was $9.85 and $104, respectively, during fiscal 2006. Of the 66,000 total options granted during fiscal 2006, 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 $8.21 per share, and the remaining 52,000 options were at exercise prices equal to the market price of Common Stock at the grant date with a weighted average fair value of $10.29 per share.

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A summary of the status of the Company s non-vested shares as of June 29, 2006, and changes during fiscal 2006, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	219,125	$ 6.91
Activity:		
Granted	66,000	9.85
Vested	(79,000)	6.12
Forfeited	(24,125)	8.61
Nonvested, end of year	182,000	$ 8.09

As of June 29, 2006, there was $1.06 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company s stock option plans. The Company expects to recognize that cost over a weighted average period of 1.36 years. The total fair value of shares vested during fiscal 2006 was $484.

Exercise prices for options outstanding as of June 29, 2006 ranged from $3.44 to $32.30. The weighted average remaining contractual life of those options is 6.7 years, 6.0 year for those exercisable. The aggregate intrinsic value of outstanding options at June 29, 2006 was $793, $601 for those exercisable. The options outstanding at June 29, 2006 may be segregated into two ranges, as is shown in the following:

	Option Price Per Share Range	
	$3.44 - $9.38	$15.14 - $32.30
Number of options	120,065	204,750
Weighted-average exercise price	$ 6.40	$ 17.98
Weighted-average remaining life (years)	5.5	7.3
Number of options exercisable	88,315	54,500
Weighted average exercise price for exercisable options	$ 6.20	$ 17.46

NOTE 13 EMPLOYEE BENEFIT PLANS

The Company maintains 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. The Company contributes 50% of the amount contributed by each employee up to certain maximums specified in the plan. Total Company contributions to the 401(k) plan were $629, $584 and $640 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively.

The Company contributed $128, $94 and $89 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively, to multi-employer union-sponsored pension plans. The Company is presently unable to determine its respective share of either accumulated plan benefits or net assets available for benefits under the union plans.

NOTE 14 RETIREMENT PLAN

On August 25, 2005, the Compensation, Nominating and Corporate Governance Committee (the Committee) approved a Supplemental Employee Retirement Plan (SERP) for certain executive officers and key employees of the Company effective as of August 25, 2005. 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. The Company uses its fiscal year-end as its measurement date for obligation and asset calculations. As of June 29, 2006, the Company had recorded an intangible asset of $6.2 million and related minimum pension liability of $8.0 million

related to the SERP.

The changes in the benefit obligation; components of the actuarial gain; and the plan s funded status for the year ended June 29, 2006 are as follows:

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Change in projected benefit obligation	
Benefit obligation at plan inception, August 25, 2005	$ 14,674
Service cost	386
Interest cost	642
Actuarial gain	(5,453)
Projected benefit obligation at June 29, 2006	$ 10,249
Accrued benefit obligation at June 29, 2006	$ 8,023
Components of the actuarial gain	
Change in participant bonus percentage	$ (3,141)
Change in discount rates	(1,906)
Other demographic changes	(406)
Actuarial gain	$ (5,453)
Funded status	$ (10,249)
Unrecognized net actuarial gain	(5,453)
Unrecognized prior service cost	13,876
Net amount recognized	$ (1,826)

Amounts recognized in the statement of financial position at June 29, 2006 consist of:

Accrued benefit cost	$ (8,023)
Intangible asset	6,197
Net amount recognized	$ (1,826)

The components of the net periodic pension cost for the year ended June 29, 2006 are as follows:

Service cost	$ 386
Interest cost	642
Prior service cost amortization	798
Net periodic cost	$ 1,826

Significant assumptions related to the Company s 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. The assumptions utilized by the Company in calculating the benefit obligations and net periodic costs of its SERP for the year ended June 29, 2006 are as follows:

	Plan Inception August 25, 2005	**June 29, 2006**
Discount rate	5.25%	6.44%
Rate of compensation increases	4.00%	4.50%

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 the Company s obligation and periodic expense pursuant to the SERP. To the extent the discount rate increases or decreases, the Company s SERP obligation is decreased or increased, accordingly.

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The following benefit payments, which reflect expected future service, are expected to be paid:

Fiscal year	
2007	$ 369
2008	246
2009	814
2010	780
2011	743
2012 2016	3,077

NOTE 15 TRANSACTIONS WITH RELATED PARTIES

In addition to the related party transactions described in Note 8, the Company also entered into transactions with the following related parties:

The Company purchases materials and manufacturing equipment from a company that is 11% owned by the wife of the Company s Chairman of the Board. The five children of the Company s Chairman of the Board own the balance of the entity either directly or as equal beneficiaries of a trust. Two of the children are officers and directors of the Company. Purchases from this related entity aggregated $9,799, $8,565 and $8,715 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. Accounts payable to this related entity aggregated $128 and $1,099 at June 29, 2006 and June 30, 2005, respectively.

The Company purchases materials from a company that is 33% owned by an individual related to the Company s Chairman of the Board. Material purchases from this related entity aggregated $682, $489 and $501 for the years ended June 29, 2006, June 30, 2005 and June 24, 2004, respectively. Accounts payable to this related entity aggregated $12 and $12 at June 29, 2006 and June 30, 2005, respectively.

The Company purchased supplies from a company that was previously 33% owned by an individual related to the Company s Chairman of the Board. This individual divested his ownership during fiscal 2005. Supply purchases from this former related entity aggregated $174 and $305 for the years ended June 30, 2005 and June 24, 2004, respectively. Accounts payable to this related entity aggregated $2 at June 30, 2005.

NOTE 16 DISTRIBUTION CHANNEL AND PRODUCT TYPE SALES MIX

The Company operates in a single reportable operating segment through which it sells various nut products through multiple distribution channels.

The following summarizes net sales by distribution channel.

Distribution Channel	Year Ended June 29, 2006	Year Ended June 30, 2005	Year Ended June 24, 2004
Consumer	$ 292,890	$ 298,298	$ 289,586
Industrial	131,635	132,900	110,813
Food Service	64,356	61,294	48,969
Contract Packaging	44,874	45,181	33,074
Export	45,809	44,056	38,369
Total	$ 579,564	$ 581,729	$ 520,811

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

Product Type	Year Ended June 29, 2006	Year Ended June 30, 2005	Year Ended June 24, 2004
Peanuts	20.1%	22.4%	24.9%
Pecans	21.8	23.3	20.1
Cashews & Mixed Nuts	22.4	22.7	22.7
Walnuts	11.8	9.4	9.9
Almonds	15.4	13.5	12.3
Other	8.5	8.7	10.1
Total	100.0%	100.0%	100.0%

NOTE 17 INTEREST COST

The following is a breakout of interest cost:

	For the Years Ended		
	June 29, 2006	June 30, 2005	June 24, 2004
Gross interest cost	$ 8,324	$ 4,030	$ 3,434
Capitalized interest	(1,808)	(32)	
Interest expense	$ 6,516	$ 3,998	$ 3,434

NOTE 18 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

The following table details the activity in various allowance and reserve accounts:

Description	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
June 29, 2006				
Income tax valuation allowance (Restated)	$	$ 500	$	$ 500
Allowance for doubtful accounts	887	88	(671)	304
Reserve for cash discounts	280	6,055	(6,055)	280
Reserve for customer deductions	2,562	8,752	(8,132)	3,182
Total	$ 3,729	$ 15,395	$ (14,858)	$ 4,266
June 30, 2005				
Allowance for doubtful accounts	$ 650	$ 270	$ (33)	$ 887
Reserve for cash discounts	195	6,155	(6,070)	280
Reserve for customer deductions	1,132	8,154	(6,724)	2,562

Total	$ 1,977	$ 14,579	$ (12,827)	$ 3,729
June 24, 2004				
Allowance for doubtful accounts	$ 591	$ 277	$ (218)	$ 650
Reserve for cash discounts	140	5,568	(5,513)	195
Reserve for customer deductions	821	7,285	(6,974)	1,132
Total	$ 1,552	$ 13,130	$ (12,705)	$ 1,977

NOTE 19 SUBSEQUENT EVENTS

The Company did not comply with the minimum quarterly EBITDA requirement under the Note Agreement for the first quarter of fiscal 2007, which resulted in a cross-default under the Bank Credit Facility. The Company received waivers from its lenders for this non-compliance with restrictive covenants. The Company is uncertain whether it will be able to comply with the covenants and warranties in its various financing arrangements, such as the EBITDA covenant contained in its Note Agreement, in the future. If the Company does not comply with the covenants or warranties in its financing arrangements in the future, the Company will seek waivers from its lenders; however, there can be no assurance that in such case waivers will be received or that such waivers will be on commercially reasonable terms that are not adverse to the Company. In light of the non-compliance with the restrictive covenant as a result of the Company s performance for the first quarter of fiscal 2007, and the uncertainty relating to the Company s ability to

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comply with covenants and warranties during future periods, amounts due pursuant to the Note Agreement for the first quarter of fiscal 2007 and subsequent quarters will be classified as currently due.

The Company s announcement on November 22, 2006 that the consolidated financial statements in its Form 10-K for fiscal 2006 filed on September 27, 2006 could no longer be relied upon caused a default pursuant to the Company s Note Agreement and Bank Credit Facility. In addition, the Company did not file its quarterly report on Form 10-Q for the quarter ended September 28, 2006 with the Securities and Exchange Commission by the November 27, 2006 deadline required in the Note Agreement, which caused an additional event of default pursuant to the Note Agreement. The Company has received waivers from its lenders for these events of non-compliance. Non-compliance with any future covenant or warranty requirements would allow the lenders to demand immediate payment. If waivers are not received or acceptable terms renegotiated with respect to future non-compliance with covenant or warranty requirements, the Company s ability to pursue its business plans, objectives and its ability to continue as a going concern would be adversely affected.

Obtaining alternative financing for amounts due pursuant to the Note Agreement would allow the Company to eliminate the restrictive EBITDA covenant that the Company did not comply with in the first quarter of fiscal 2007 as well as the related uncertainty as to whether the Company will be able to comply with such covenant in the future. The Company believes it would be able to secure alternative financing for the amounts due pursuant to the Note Agreement through conventional mortgages that do not contain a restrictive EBITDA covenant; however, there can be no assurance that such alternative financing could be obtained, that the new lenders would be willing to negotiate on terms acceptable to the Company, or that the Company would receive the consent for such refinancing required by its Bank Credit Facility. The Bank Credit Facility does not contain a restrictive EBITDA covenant; however, a default under the Note Agreement triggers a default under the Bank Credit Facility. If the Company attempts to secure alternative financing for amounts due under the Note Agreement, it does not anticipate that it would also attempt to secure alternative financing for amounts due pursuant to the Bank Credit Facility. Sustained losses by the Company, the inability to receive waivers from the Company s lenders, if necessary, the inability to secure alternative financing for amounts due pursuant to the Note Agreement, and/or future non-compliance with the covenants or warranties in the Company s Bank Credit Facility and Note Agreement would have a material adverse effect on the Company s financial position, results of operations and cash flows and raises substantial doubt with respect to the Company s ability to continue as a going concern.

NOTE 20 SUPPLEMENTARY QUARTERLY DATA (Unaudited)

The following unaudited quarterly consolidated financial data are presented for fiscal 2006 and fiscal 2005. Quarterly financial results necessarily rely on estimates and caution is required in drawing specific conclusions from quarterly consolidated results. The fourth quarter of fiscal 2006 has been restated for the matters discussed in Note 1 to these consolidated financial statements. The impact of the restatement was as follows; reduce gross profit by $538, increase the loss from operations by $1,780, increase net loss by $2,280 and increase the loss per share by $0.22

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter Restated
Year Ended June 29, 2006:				
Net sales	$138,658	$191,077	$119,004	$130,825
Gross profit	13,280	16,139	4,498	3,200
(Loss) income from operations	(82)	1,262	(7,425)	(12,039)
Net loss	(1,128)	(64)	(5,913)	(9,616)
Basic loss per common share	$ (0.11)	$ (0.01)	$ (0.56)	$ (0.91)
Diluted loss per common share	$ (0.11)	$ (0.01)	$ (0.56)	$ (0.91)
Year Ended June 30, 2005:				
Net sales	$134,645	$183,024	$119,979	$144,081
Gross profit	16,926	24,990	15,936	20,577
Income from operations	4,325	10,822	4,371	7,069

Net income	2,556	6,421	2,051	3,471
Basic earnings per common share	$ 0.24	$ 0.61	$ 0.19	$ 0.33
Diluted earnings per common share	$ 0.24	$ 0.60	$ 0.19	$ 0.32

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The fourth quarter of fiscal 2006 contained a $0.5 million downward revision to the estimate of on-hand quantities of bulk-stored inshell pecan inventories whereas the fourth quarter of fiscal 2005 contained a $3.1 million upward revision to the estimate. The fourth quarter of fiscal 2006 also contained (i) a $0.8 million increase in the accrual for workers compensation claims; (ii) $1.5 million in additional costs related to the reprocessing of walnuts and almonds; and (iii) a $1.9 million write-down of walnut and almond by-products and packaging materials.

In addition, the restatement of the Company s 2006 consolidated financial statements resulted in (i) a $1.2 million goodwill impairment loss; (ii) a $0.5 million charge related to a variable interest entity, and (iii) a $0.5 million valuation allowance related to the realization of tax benefit carryforwards.

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Item 9A Controls and Procedures

Restatement of previously issued Consolidated Financial Statements

As described in Note 1 to the consolidated financial statements, the Company has restated its 2006 Consolidated Financial Statements.

In connection with the restatement described above, management has also concluded that the restatement referred to above resulted from material weaknesses in the Company s internal control over financial reporting as described below in Management s Report on Internal Control over Financial Reporting (Restated).

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures , as such term is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.

When the Company filed its Annual Report on Form 10-K for the year ended June 29, 2006 on September 27, 2006, management concluded that $54.2 million of debt related to the Note Agreement was properly classified as Long-term Debt. That determination was based upon, among other things, a forecast (the Forecast) the Company prepared indicating that the Company would be able to attain the minimum quarterly adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) levels required by the Note Agreement throughout fiscal 2007, as well as satisfy other non-financial covenants contained in the Note Agreement and other borrowing arrangements. The Company did not achieve the minimum quarterly EBITDA covenant for the quarter ended September 28, 2006 by a material amount, which caused the Company to reevaluate the accuracy of the Forecast, the reasonableness of assumptions underlying the Forecast and its related conclusions with respect to expected covenant compliance. On November 17, 2006, the Company determined that the Forecast did not take into consideration information available to the Company in connection with classifying amounts as current and non-current in its June 29, 2006 balance sheet and therefore the balance sheet classification of the long-term debt was not accurate. If such information had been incorporated in the Forecast and considered by management in evaluating the classification of affected debt obligations, the Company would have concluded that the Company would not meet the EBITDA covenant for the first quarter of fiscal 2007 and accordingly the obligations pursuant to the Note Agreement would have been classified as Current Maturities of Long-term Debt in the consolidated financial statements as of and for the year ended June 29, 2006.

As a result of the revised forecast described above, the Company also reevaluated its 2006 impairment test of the carrying value of goodwill and reconsidered the need for a valuation allowance with respect to state income tax net operating loss (NOL) carryforwards**.** The Company used a forecast in the original goodwill impairment test which failed to consider certain information, and as a result led the Company to conclude the goodwill was not impaired. By using the revised forecast which considered all known facts, the Company has determined that the fair market value was below book value of their reporting unit. As a result the Company is restating its consolidated financial statements and related disclosures for fiscal 2006 to recognize an impairment of the remaining goodwill balance of $1.2 million.

With respect to state income tax NOL carryforwards, there is a rebuttable presumption in a going concern circumstance that the remaining state NOL carryforwards will not be recoverable as future taxable income from sources other than the reversal of existing future taxable temporary differences and can not be relied upon as evidence supporting the recovery of the deferred tax asset. As a result, the Company has provided a valuation allowance of $0.5 million, which reflects the amount by which state income tax NOL carryforwards are in excess of state net deferred tax liabilities.

The Company is also restating its financial statements for the year ended June 29, 2006 to consolidate a variable interest entity. The Company leased certain properties during 2006 from two related party partnerships, one of which was terminated in March 2006 and the other terminated in July 2006. The Company s Balance Sheet as of June 29, 2006 has been adjusted to consolidate the one partnership leasing a facility to the Company as of June 29, 2006. As a result, Current Maturities of Long-term Debt increased by $1.2 million and Buildings increased by $0.7 million. The

cumulative effect of this item of $0.5 million was recorded in Cost of Sales in

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the Statement of Operations for the year ended June 29, 2006. In connection with the sale of the property in March 2006, the Company recognized a gain of approximately $3.5 million in other income and expense, together with an equal and offsetting amount applicable to the partnership s minority interest, as the partnership and not the Company is entitled to the net proceeds from the sale.

The restated financial statements as of and for the year ended June 29, 2006 adjust the individual financial statement line items detailed below and impact certain related footnote disclosures. Note 2 describes the ability of the Company to meet its obligations as they become due, which raises substantial doubt with respect to the ability of the Company to continue as a going concern.

At the time that the Company s Annual Report on Form 10-K for the year ended June 29, 2006 was filed on September 27, 2006, the CEO and CFO concluded that the Company s disclosure controls and procedures were effective as of June 29, 2006. Subsequent to that evaluation, the Company s CEO and CFO concluded that the Company s disclosure controls and procedures were not effective as of June 29, 2006 because of the material weaknesses in the Company s internal control over financial reporting discussed below.

Management s Report on Internal Control over Financial Reporting (Restated)

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Management assessed the effectiveness of the Company s internal control over financial reporting as of June 29, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management s assessment included the following material weaknesses in the Company s internal control over financial reporting as of June 29, 2006:

(1) The Company did not maintain effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis. Specifically, there was inadequate sharing of information impacting the financial statements between the accounting, sales, and operating departments for consideration by the appropriate accounting personnel in the Company s financial forecast. This control deficiency resulted in the restatement of the 2006 consolidated financial statements, affecting the classification of long-term debt, valuation allowance associated with state tax net operating loss carryforwards and disclosures relating to the Company s ability to continue as a going concern.

(2) The Company did not maintain effective controls over the completeness and accuracy of the periodic goodwill impairment assessment. Specifically, effective controls were not maintained to ensure that a complete and accurate periodic impairment analysis was prepared, reviewed, and approved in order to identify and record impairments, as required under generally accepted accounting principles. This control deficiency resulted in the restatement of the Company s 2006 consolidated financial statements, affecting goodwill, goodwill impairment loss and disclosures.

(3) The Company did not maintain effective controls to ensure the accuracy of accounting for lease transactions. Specifically, effective controls were not maintained to ensure that an accurate analysis was prepared, reviewed and approved in order to properly evaluate the accounting for certain sale-leaseback transactions, as required under generally accepted accounting principles, affecting plant, property and equipment, current and long-term liabilities, gains relating to real estate sales, lease expense, interest expense and sale-leaseback transaction disclosures.

(4) The Company did not maintain a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company s financial reporting requirements. This control deficiency contributed to the material weaknesses discussed in items 1, 2 and 3

above and the restatement of the Company s 2006 consolidated financial statements.

These control deficiencies could result in a misstatement of the aforementioned account balances and disclosures that would result in a material misstatement of the annual or interim consolidated financials statements that would not be prevented or detected. Accordingly, management has determined that each of these control deficiencies constitutes a material weakness at June 29, 2006.

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In Management s Report on Internal Control Over Financial Reporting included in the Company s original Annual Report on Form 10-K for the year ended June 29, 2006, management concluded that the Company s internal control over financial reporting was effective as of June 29, 2006 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Based on management s revised assessment and because of the material weaknesses described above, management has subsequently concluded that the Company did not maintain effective internal control over financial reporting as of June 29, 2006, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Accordingly, management has restated its report on internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited management s assessment of the effectiveness of the Company s internal control over financial reporting as of June 29, 2006 as stated in their report contained in this Annual Report on Form 10-K/A.

Remediation Plan for Material Weaknesses

The Company did not maintain effective controls to ensure the completeness and accuracy of information communicated within the organization on a timely basis. To remediate this matter, the Company plans to:

1. Conduct month end surveys or meetings of significant functional areas such as operations, purchasing, accounts payable, sales, marketing and payroll in order to ensure that all relevant information is communicated to the accounting department in a complete and timely manner and considered in the financial statement closing process.

2. Implement a process to ensure that information gathered in the financial statement closing process that requires further action or consideration is tracked and resolved on a timely basis.

3. Perform monthly cutoffs of all transactional activity on a company-wide basis to the same extent that it performs cutoffs at the end of quarters to improve the accuracy of monthly interim periodic financial information. This effort will primarily focus on inventory and related reserves and accounts.

4. Implement new forecasting methods, considering the survey and monthly close information on a more frequent basis, with the objective of improving the accuracy and usefulness of such information.

5. Direct the internal audit department to focus on the process changes and on effective operation of the newly implemented information and communication processes discussed above.

6. Implement a revised lease assessment process to ensure proper lease accounting determinations are made on an interim and annual basis.

The Company did not maintain a sufficient complement of accounting and finance personnel with an appropriate level of accounting knowledge, experience and training in the selection and application of generally accepted accounting principles commensurate with the Company s financial reporting requirements. To remediate this matter, the Company plans to:

1. Hire an additional senior level accounting professional, with public company experience, to enhance the technical accounting resources of the department.

2. Hire two experienced degreed accountants to improve the timeliness of periodic closings and to allow more senior accounting executives to perform higher level review duties.

3. Engage a consultant to review its monthly closing process to further improve the timeliness and accuracy of both the interim and quarterly closing processes. This effort will focus on improving the timing related to preparation of SEC filings as well.

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The impairment charge for goodwill reflected in the restatement has eliminated the entire goodwill balance from the Company s balance sheet. Remedial actions planned with respect to sufficiency of accounting personnel will ensure that appropriate controls are in place if future acquisitions result in generating goodwill when applying purchase accounting. In this case, the Company will design a control to ensure a proper impairment test is performed.
These measures (as well as the focus on remediation of other control deficiencies not considered material weaknesses) will take some time to implement effectively and it is expected that during fiscal 2007, the Company will report material weaknesses in these same areas until such weaknesses have been remediated and operating effectively for a sufficient period of time. The adequacy and effectiveness of the remediation plans are subject to continued management review and Audit Committee oversight and, accordingly, the Company may make additional changes to its internal control over financial reporting to address the material weaknesses.

Changes in Internal Control over Financial Reporting

Further, management determined that there were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company s management, including the Company s CEO and CFO, does not expect that the Disclosure Controls or the Company s Internal Control over Financial Reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part 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 system, misstatements due to error or fraud may occur and not be detected.

PART IV

Item 15 Exhibits and Financial Statement Schedules

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.

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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: December 15, 2006

By: /s/ 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 (Principal Executive Officer)	December 15, 2006
/s/ Michael J. Valentine Michael J. Valentine	Chief Financial Officer and Group Vice President (Principal Financial Officer)	December 15, 2006
/s/ William R. Pokrajac William R. Pokrajac	Vice President of Finance (Principal Accounting Officer)	December 15, 2006
/s/ Jasper B. Sanfilippo Jasper B. Sanfilippo	Director	December 15, 2006
/s/ Mathias A. Valentine Mathias A. Valentine	Director	December 15, 2006
/s/ Jim Edgar Jim Edgar	Director	December 15, 2006
/s/ Timothy R. Donovan Timothy R. Donovan	Director	December 15, 2006
/s/ Jasper B. Sanfilippo, Jr. Jasper B. Sanfilippo, Jr.	Director	December 15, 2006
/s/ Daniel M. Wright Daniel M. Wright	Director	December 15, 2006

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JOHN B. SANFILIPPO & SON, INC.

EXHIBIT INDEX

(Pursuant to Item 601 of Regulation S-K)

Exhibit Number	Description
23	Consent of PricewaterhouseCoopers LLP, filed herewith
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