

NATIONAL BEVERAGE CORP  
Form 10-Q  
November 30, 2016

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the Quarterly Period Ended October 29, 2016

Commission file number 1-14170

**NATIONAL BEVERAGE CORP.**

(Exact name of registrant as specified in its charter)

Delaware                      59-2605822  
(State of incorporation) (I.R.S. Employer Identification No.)

8100 SW Tenth Street, Suite 4000, Fort Lauderdale, FL 33324

(Address of principal executive offices including zip code)

(954) 581-0922

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(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ( ) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ( ) No ( )

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

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

The number of shares of registrant's common stock outstanding as of November 25, 2016 was 46,562,250.

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**NATIONAL BEVERAGE CORP.**

**QUARTERLY REPORT ON FORM 10-Q**

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****NATIONAL BEVERAGE CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(In thousands, except share data)

	October 29, 2016	April 30, 2016
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$150,488	\$105,577
Trade receivables - net	63,306	61,046
Inventories	50,092	47,922
Deferred income taxes - net	3,793	4,454
Prepaid and other assets	3,437	4,672
Total current assets	271,116	223,671
Property, plant and equipment - net	65,027	61,932
Goodwill	13,145	13,145
Intangible assets	1,615	1,615
Other assets	5,088	5,135
Total assets	\$355,991	\$305,498
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$43,486	\$49,391
Accrued liabilities	26,577	26,195
Income taxes payable	986	28
Total current liabilities	71,049	75,614
Deferred income taxes - net	14,427	14,474
Other liabilities	9,235	9,258
Shareholders' equity:		
Preferred stock, \$1 par value - 1,000,000 shares authorized: Series C - 150,000 shares issued	150	150
Common stock, \$.01 par value - 75,000,000 shares authorized; 50,595,034 shares issued (50,588,734 shares at April 30)	506	506
Additional paid-in capital	34,844	34,570
Retained earnings	244,332	190,733
Accumulated other comprehensive loss	(552 )	(1,807 )
Treasury stock - at cost:		
Series C preferred stock - 150,000 shares	(5,100 )	(5,100 )
Common stock - 4,032,784 shares	(12,900 )	(12,900 )

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Total shareholders' equity	261,280	206,152
Total liabilities and shareholders' equity	\$355,991	\$305,498

See accompanying Notes to Consolidated Financial Statements.

**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(In  
thousands,  
except per  
share  
amounts)

	Three Months Ended		Six Months Ended	
	October	October	October	October
	29,	31,	29,	31,
	2016	2015	2016	2015
Net sales	\$203,180	\$178,678	\$420,288	\$364,064
Cost of sales	124,463	118,057	256,077	240,544
Gross profit	78,717	60,621	164,211	123,520
Selling, general and administrative expenses	41,397	37,249	82,885	74,055
Interest expense	50	62	88	113
Other income (expense) - net	122	(39 )	219	(74 )
Income before income taxes	37,392	23,271	81,457	49,278
Provision for income taxes	12,788	7,959	27,858	16,853
Net income	24,604	15,312	53,599	32,425
Less preferred dividends	-	(37 )	-	(75 )
Earnings available to common shareholders	\$24,604	\$15,275	\$53,599	\$32,350
Earnings per common share:				
Basic	\$.53	\$.33	\$1.15	\$.70
Diluted	\$.53	\$.33	\$1.15	\$.69
Weighted average common shares outstanding:				
Basic	46,560	46,416	46,558	46,407
Diluted	46,761	46,647	46,764	46,619

See accompanying Notes to Consolidated Financial Statements.





**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
(In thousands)

	Three Months Ended		Six Months Ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income	\$24,604	\$15,312	\$53,599	\$32,425
Other comprehensive income (loss), net of tax:				
Cash flow hedges	840	222	1,255	(2,029)
Comprehensive income	\$25,444	\$15,534	\$54,854	\$30,396

See accompanying Notes to Consolidated Financial Statements.

**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)**

(In thousands)

	Six Months Ended	
	October	October
	29,	31,
	2016	2015
<b>Series C Preferred Stock</b>		
Beginning and end of period	\$150	\$150
<b>Series D Preferred Stock</b>		
Beginning and end of period	-	120
<b>Common Stock</b>		
Beginning of period	506	504
Stock options exercised	-	1
End of period	506	505
<b>Additional Paid-In Capital</b>		
Beginning of period	34,570	37,759
Stock options exercised	100	441
Stock-based compensation	98	128
Stock-based tax benefits	76	211
End of period	34,844	38,539
<b>Retained Earnings</b>		
Beginning of period	190,733	129,773
Net income	53,599	32,425
Preferred stock dividends	-	(75 )
End of period	244,332	162,123
<b>Accumulated Other Comprehensive Loss</b>		
Beginning of period	(1,807 )	(2,524 )
Cash flow hedges, net of tax	1,255	(2,029 )
End of period	(552 )	(4,553 )
<b>Treasury Stock - Series C Preferred</b>		
Beginning and end of period	(5,100 )	(5,100 )
<b>Treasury Stock - Common</b>		
Beginning and end of period	(12,900 )	(12,900 )
<b>Total Shareholders' Equity</b>	<b>\$261,280</b>	<b>\$178,884</b>

See accompanying Notes to Consolidated Financial Statements.



**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(In thousands)

	Six Months Ended	
	October 29, 2016	October 31, 2015
<b>Operating Activities:</b>		
Net income	\$53,599	\$32,425
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,357	6,055
Deferred income tax benefit	(127 )	(15 )
Gain on sale of property, net	(6 )	(5 )
Stock-based compensation	98	128
Changes in assets and liabilities:		
Trade receivables	(2,260 )	2,671
Inventories	(2,170 )	(5,752 )
Prepaid and other assets	(854 )	583
Accounts payable	(5,905 )	(2,438 )
Accrued and other liabilities	4,456	3,509
Net cash provided by operating activities	53,188	37,161
<b>Investing Activities:</b>		
Additions to property, plant and equipment	(8,468 )	(4,413 )
Proceeds from sale of property, plant and equipment	15	5
Net cash used in investing activities	(8,453 )	(4,408 )
<b>Financing Activities:</b>		
Dividends paid on preferred stock	-	(74 )
Repayments under credit facilities	-	(10,000)
Proceeds from stock options exercised	100	442
Stock-based tax benefits	76	211
Net cash provided by (used in) financing activities	176	(9,421 )
<b>Net Increase in Cash and Equivalents</b>	44,911	23,332
<b>Cash and Equivalents - Beginning of Period</b>	105,577	52,456
<b>Cash and Equivalents - End of Period</b>	\$150,488	\$75,788
<b>Other Cash Flow Information:</b>		
Interest paid	\$152	\$90
Income taxes paid	\$25,770	\$15,154

See accompanying Notes to Consolidated Financial Statements.



## **NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

National Beverage Corp. develops, produces, markets and sells a distinctive portfolio of Sparkling Waters, Juices, Energy Drinks and Carbonated Soft Drinks primarily in North America. Incorporated in Delaware in 1985, National Beverage Corp. is a holding company for various operating subsidiaries. When used in this report, the terms “we,” “us,” “our,” “Company” and “National Beverage” mean National Beverage Corp. and its subsidiaries.

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

##### ***Basis of Presentation***

The consolidated financial statements include the accounts of National Beverage Corp. and its subsidiaries. Significant intercompany transactions and accounts have been eliminated.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) and rules and regulations of the Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all information and notes presented in the annual consolidated financial statements. The consolidated financial statements should be read in conjunction with the annual consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016. The accounting policies used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results for the interim periods presented are not necessarily indicative of results which might be expected for the entire fiscal year.

##### ***Derivative Financial Instruments***

We use derivative financial instruments to partially mitigate our exposure to changes in raw material costs. All derivative financial instruments are recorded at fair value in our Consolidated Balance Sheets. The estimated fair value of derivative financial instruments is calculated based on market rates to settle the instruments. We do not use derivative financial instruments for trading or speculative purposes. Credit risk related to derivative financial

instruments is managed by requiring high credit standards for counterparties and frequent cash settlements. See Note 5.

### *Earnings Per Common Share*

Basic earnings per common share is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated in a similar manner, but includes the dilutive effect of stock options.

### *Inventories*

Inventories are stated at the lower of first-in, first-out cost or market. Inventories at October 29, 2016 are comprised of finished goods of \$29.3 million and raw materials of \$20.8 million. Inventories at April 30, 2016 are comprised of finished goods of \$29.1 million and raw materials of \$18.8 million.

## 2. PROPERTY, PLANT AND EQUIPMENT

Property consists of the following:

	(In thousands)	
	October 29, 2016	April 30, 2016
Land	\$9,500	\$9,500
Buildings and improvements	50,943	50,856
Machinery and equipment	170,325	162,195
Total	230,768	222,551
Less accumulated depreciation	(165,741)	(160,619)
Property, plant and equipment – net	\$65,027	\$61,932

Depreciation expense was \$2.7 million and \$5.4 million for the three and six months ended October 29, 2016, respectively, and \$2.6 million and \$5.3 million for the three and six months ended October 31, 2015, respectively.

## 3. DEBT

At October 29, 2016, a subsidiary of the Company maintained unsecured revolving credit facilities with banks aggregating \$100 million (the “Credit Facilities”). The Credit Facilities expire from October 10, 2017 to June 18, 2018 and, currently, any borrowings would bear interest at .9% above one-month LIBOR. There were no borrowings outstanding under the Credit Facilities at October 29, 2016 or at April 30, 2016. At October 29, 2016, \$2.2 million of the Credit Facilities were reserved for standby letters of credit and \$97.8 million were available for borrowings.

The Credit Facilities require the subsidiary to maintain certain financial ratios, including debt to net worth and debt to EBITDA (as defined in the Credit Facilities), and contain other restrictions, none of which are expected to have a material effect on our operations or financial position. At October 29, 2016, we were in compliance with all loan covenants.

## 4. STOCK-BASED COMPENSATION



During the six months ended October 29, 2016, options to purchase 6,300 shares were exercised (weighted average exercise price of \$15.91 per share) and options to purchase 4,000 shares were cancelled (weighted average exercise price of \$14.47). At October 29, 2016, options to purchase 408,595 shares (weighted average exercise price of \$12.35 per share) were outstanding and stock-based awards to purchase 2,806,614 shares of common stock were available for grant.

## **5. DERIVATIVE FINANCIAL INSTRUMENTS**

From time to time, we enter into aluminum swap contracts to partially mitigate our exposure to changes in the cost of aluminum cans. Such financial instruments are designated and accounted for as a cash flow hedge. Accordingly, gains or losses attributable to the effective portion of the cash flow hedge are reported in Accumulated Other Comprehensive Income (Loss) ("AOCI") and reclassified into earnings through cost of sales in the period in which the hedged transaction affects earnings. The ineffective portion of the change in fair value of our cash flow hedge was immaterial. The following summarizes the gains (losses) recognized in the Consolidated Statements of Income and AOCI relative to cash flow hedges for the three and six months ended October 29, 2016 and October 31, 2015:

	(In thousands)			
	Three Months		Six Months	
	Ended		Ended	
	2016	2015	2016	2015
Recognized in AOCI:				
Gain (loss) before income taxes	\$253	\$(2,094)	\$(197 )	\$(7,064)
Less income tax provision (benefit)	94	(777 )	(73 )	(2,621)
Net	\$159	\$(1,317)	\$(124 )	\$(4,443)
Reclassified from AOCI to cost of sales:				
Loss before income taxes	\$(1,083)	\$(2,446)	\$(2,193)	\$(3,837)
Less income tax benefit	(402 )	(907 )	(814 )	(1,423)
Net	\$(681 )	\$(1,539)	\$(1,379)	\$(2,414)
Net change to AOCI	\$840	\$222	\$1,255	\$(2,029)

As of October 29, 2016, the notional amount of our outstanding aluminum swap contracts was \$6.5 million and, assuming no change in the commodity prices, \$517,000 of unrealized loss before tax will be reclassified from AOCI and recognized in earnings over the next twelve months. See Note 1.

As of October 29, 2016, the fair value of the derivative asset, derivative long-term asset and derivative liability was \$159,000, \$27,000 and \$676,000, which was included in prepaid and other assets, other assets and accrued liabilities, respectively. At April 30, 2016, the fair value of the derivative liability was \$2.5 million, which was included in accrued liabilities. Such valuation does not entail a significant amount of judgment and the inputs that are significant to the fair value measurement are Level 2 as defined by the fair value hierarchy as they are observable market based inputs or unobservable inputs that are corroborated by market data.

## 6. NEW ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). This amendment addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for our fiscal year beginning April 30, 2017. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements, however adoption is not expected to have a material impact on our financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. ASU 2016-02 is effective for our fiscal year beginning April 28, 2019. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial

statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, “Balance Sheet Classification of Deferred Taxes” (“ASU 2015-17”). ASU 2015-17 requires companies to classify all deferred tax liabilities and assets as noncurrent on the balance sheet. ASU 2015-17 is effective for our fiscal year beginning April 30, 2017. If implemented, our current deferred tax asset would be reclassified to noncurrent in the consolidated balance sheet. ASU 2015-17 has not yet been adopted.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize revenue in an amount that reflects the consideration it expects to receive in exchange for goods or services. On August 12, 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 by one year and is effective for our fiscal year beginning April 29, 2018. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements, however adoption is not expected to have a material impact on our financial position, results of operations or cash flows.

## **7. COMMITMENTS AND CONTINGENCIES**

As of October 29, 2016, we guaranteed the residual value of certain leased equipment in the amount of \$3.6 million. If the proceeds from the sale of such equipment are less than the balance required by the lease when the lease terminates on August 1, 2017, the Company will be required to pay the difference up to such guaranteed amount. The Company expects to have no loss on such guarantee.

## **8. SUBSEQUENT EVENT**

On November 18, 2016, the Company declared a special cash dividend of \$1.50 per share payable to shareholders of record on November 28, 2016. The cash dividend, expected to approximate \$70 million, will be paid on or before January 27, 2017. The Company also announced its Board has approved in concept an additional cash dividend, in an amount to be determined, to holders of record prior to the end of the current fiscal year and the Company plans to develop a program to make a distribution to shareholders based on the length of time they have owned their shares.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

National Beverage Corp. proudly refreshes America with a distinctive portfolio of Sparkling Waters, Juices, Energy Drinks and Carbonated Soft Drinks. We believe that our ingenious product designs, innovative packaging and imaginative flavors, along with our corporate culture and philosophy, makes National Beverage unique in the beverage industry. The Company's primary market focus is the United States, but our products are also distributed in various other countries. National Beverage Corp. was incorporated in Delaware in 1985 and began trading as a public company on the NASDAQ Stock Market in 1991. In this report, the terms "we," "us," "our," "Company" and "National Beverage" mean National Beverage Corp. and its subsidiaries unless indicated otherwise.

National Beverage is in an ongoing transition to meet the healthy hydration demands of the American consumer. Health and wellness awareness has increased significantly, resulting in growing demand for beverages with little or no calories and wholesome natural ingredients. Our brands emphasize distinctly-flavored beverages in attractive packaging that appeal to multiple demographic groups. The attentive, conscious and discriminating consumer is ever more alert to healthy choices and better-for-you ingredients that align to this transition and strategic focus.

Our brands consist of (i) beverages geared to the active and health-conscious consumer ("Power+ Brands") including sparkling waters, energy drinks, and juices, and (ii) Carbonated Soft Drinks in a variety of flavors including regular, sugar-free and reduced calorie options. Power+ Brands include LaCroix®, LaCroix Cúrate™, LaCroix NiCola™ and Shasta® sparkling water products; Rip It® energy drinks and shots; and Everfresh®, Everfresh Premier Varietals™ and Mr. Pure® 100% juice and juice-based products. Our Carbonated Soft Drinks portfolio includes Shasta® and Faygo®, iconic brands whose flavor development spans more than 125 years.

To service a diverse customer base that includes numerous national retailers, as well as thousands of smaller "up-and-down-the-street" accounts, we utilize a hybrid distribution system to deliver our products primarily through the take-home, convenience and food-service channels.

Our strategy emphasizes the growth of our products by (i) developing healthier beverages in response to the global shift in consumer buying habits and tailoring the variety and types of beverages in our portfolio to satisfy the preferences of a diverse mix of 'crossover consumers' – a growing group desiring a change to better-for-you beverages; (ii) emphasizing flavor development and variety throughout our product lines and brands; (iii) producing and developing products of the highest quality that also appeal to the value expectations of the consumer; (iv) leveraging our efficient production and distribution systems, and our cost-effective social media and regionally focused

marketing programs, to profitably deliver products at optimal consumer price-points; and (v) responding faster and more creatively to consumer trends than competitors who are burdened by production and distribution complexity as well as legacy costs.

The majority of our sales are seasonal with the highest volume typically realized during the summer and warmer months. As a result, our operating results from one fiscal quarter to the next may not be comparable. Additionally, our operating results are affected by numerous factors, including fluctuations in the costs of raw materials, changes in consumer preference for beverage products, competitive pricing in the marketplace and weather conditions.

## RESULTS OF OPERATIONS

Three Months Ended October 29, 2016 (second quarter of fiscal 2017) compared to Three Months Ended October 31, 2015 (second quarter of fiscal 2016)

Net sales for the second quarter of fiscal 2017 increased 13.7% to \$203.2 million compared to \$178.7 million for the second quarter of fiscal 2016. The higher sales resulted from a 13.4% increase in case volume, which includes 39.8% growth of our Power+ Brands due primarily to increased velocity and distribution of sparkling waters. The increase was partially offset by a decline in Carbonated Soft Drinks. The average selling price per case increased 2.2% due primarily to changes in product mix.

Gross profit for the second quarter of fiscal 2017 increased 29.9% to \$78.7 million compared to \$60.6 million for the second quarter of fiscal 2016. The increase in gross profit is primarily due to higher sales and a decline in average cost per case of 4.5%. The decrease in cost of sales per case was due to product mix changes and lower raw material costs. As a result, gross margin improved to 38.7% compared to 33.9% for the second quarter of fiscal 2016.

Selling, general and administrative expenses were \$41.4 million or 20.4% of net sales for the second quarter of fiscal 2017 compared to \$37.2 million or 20.8% of net sales for the second quarter of fiscal 2016. The \$4.1 million increase in expenses was primarily due to higher distribution, selling, marketing and administrative costs, much of which is related to volume growth.

Interest expense decreased to \$50,000 for the second quarter of fiscal 2017 due to repayments on borrowings under credit facilities during the prior fiscal year. Other income includes interest income of \$143,000 for the second quarter of fiscal 2017 and \$16,000 for the second quarter of fiscal 2016.

The Company's effective income tax rate, based upon estimated annual income tax rates, was 34.2% for the second quarter of fiscal 2017 and second quarter of fiscal 2016. The difference between the effective rate and the federal statutory rate of 35% was primarily due to the effect of state income taxes and the domestic manufacturing deduction.

Six Months Ended October 29, 2016 (first six months of fiscal 2017) compared to Six Months Ended October 31, 2015 (first six months of fiscal 2016)

Net sales for the first six months of fiscal 2017 increased 15.4% to \$420.3 million compared to \$364.1 million for the six months of fiscal 2016. The higher sales resulted from a 16.5% increase in case volume, which includes 42.9% growth of our Power+ Brands due primarily to increased velocity and distribution of sparkling waters. The increase was partially offset by a decline in Carbonated Soft Drinks. The average selling price per case increased 2.1% due primarily to changes in product mix.

Gross profit for the first six months of fiscal 2017 increased 32.9% to \$164.2 million compared to \$123.5 million for the first six months of fiscal 2016. The increase in gross profit is primarily due to higher sales and a decline in average cost per case of 4.8%. The decrease in cost of sales per case was due to product mix changes and lower raw material costs. As a result, gross margin improved to 39.1% compared to 33.9% for the first six months of fiscal 2016.

Selling, general & administrative expenses were \$82.9 million or 19.7% of net sales for the first six months of fiscal 2017 compared to \$74.1 million or 20.3% of net sales for the first six months of fiscal 2016. The \$8.8 million increase in expenses was primarily due to higher distribution, selling, marketing and administrative costs, much of which is related to volume growth.



Interest expense decreased to \$88,000 for the first six months of fiscal 2017 due to repayments on borrowings under credit facilities during the prior fiscal year. Other income includes interest income of \$246,000 for the first six months of fiscal 2017 and \$25,000 for the first six months of fiscal 2016.

The Company's effective income tax rate, based upon estimated annual income tax rates, was 34.2% for the first six months of fiscal 2017 and the first six months of fiscal 2016. The difference between the effective rate and the federal statutory rate of 35% was primarily due to the effect of state income taxes and the domestic manufacturing deduction.

## **LIQUIDITY AND FINANCIAL CONDITION**

### **Liquidity and Capital Resources**

Our principal source of funds is cash generated from operations and borrowings available under our credit facilities. At October 29, 2016, we maintained \$100 million unsecured revolving credit facilities, no borrowings were outstanding and \$2.2 million was reserved for standby letters of credit. We believe that existing capital resources will be sufficient to meet our liquidity and capital requirements for the next twelve months.

On November 18, 2016, the Company declared a special cash dividend of \$1.50 per share payable to shareholders of record on November 28, 2016. The cash dividend, expected to approximate \$70 million, will be paid from available cash on or before January 27, 2017. The Company also announced the Board has approved in concept an additional cash dividend, in an amount to be determined, to holders of record prior to the end of the current fiscal year.

### **Cash Flows**

The Company's cash position for the first six months of fiscal 2017 increased \$44.9 million from April 30, 2016, which compares to an increase of \$23.3 million for the first six months of fiscal 2016.

Net cash provided by operating activities for the first six months of fiscal 2017 amounted to \$53.2 million compared to \$37.2 million for the first six months of fiscal 2016. For the first six months of fiscal 2017, cash flow was principally provided by net income of \$53.6 million and depreciation and amortization aggregating \$6.4 million, offset in part by a decrease in accounts payable.

Net cash used in investing activities for the first six months of fiscal 2017 reflects capital expenditures of \$8.5 million, compared to capital expenditures of \$4.4 million for the first six months of fiscal 2016. The capital expenditure

increase is primarily to support volume growth.

In the first six months of fiscal 2016, the Company repaid \$10 million in principal repayments under credit facilities.

### **Financial Position**

During the first six months of fiscal 2017, working capital increased to \$200.1 million from \$148.1 million at April 30, 2016. The increase in working capital resulted primarily from higher cash, trade receivables and inventories and a decline in accounts payable balances. Trade receivables increased \$2.3 million due to higher sales activity while days sales outstanding improved to 28.4 days from 31.0 days at April 30, 2016. Inventories increased \$2.2 million as a result of the Company maintaining higher inventory levels to support increases in sales and new product introductions. Inventory turns improved to 9.9 from 9.5 times. The current ratio was 3.8 to 1 at October 29, 2016 and 3.0 to 1 at April 30, 2016.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risks from those reported in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to ensure information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and (2) accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this Quarterly Report on Form 10-Q (the "Form 10-Q") constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: general economic and business conditions, pricing of competitive products, success of new product and flavor introductions, fluctuations in the costs of raw materials and packaging supplies, ability to pass along cost increases to our customers, labor strikes or work stoppages or other interruptions in the employment of labor, continued retailer support for our products, changes in consumer preferences and our success in creating products geared toward consumers' tastes, success in implementing business strategies, changes in business strategy or development plans, government regulations, taxes or fees imposed on the sale of our products, unfavorable weather conditions and other factors referenced in this Form 10-Q. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections contained in our Annual Report on Form 10-K for the fiscal year ended April 30,

2016 and other filings with the Securities and Exchange Commission. We disclaim an obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments.

## **PART II - OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

There have been no material changes in risk factors from those reported in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016.

### **ITEM 6. EXHIBITS**

#### Exhibit No. Description

- |      |  |
|------|--|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002     |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002     |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

- |     |  |
|-----|--|
| 101 | The following financial information from National Beverage Corp. Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2016, formatted in XBRL (eXtensible Business Reporting Language):<br>(i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements. |
|-----|--|

**SIGNATURE**

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

Date: November 30, 2016

National Beverage Corp.

(Registrant)

By: /s/ Gregory P. Cook  
Gregory P. Cook  
Vice President – Controller and  
Chief Accounting Officer