UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 24, 2022

OR

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

For the transition period from ________ to ________

Commission File Number: 001-40837

Sovos Brands, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**81-5119352**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

168 Centennial Parkway, Suite 200
Louisville, CO 80027
(Address of principal executive offices) (zip code)
(720) 316-1225
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	SOVO	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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 every Interactive Date File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer☐
Non-accelerated filer	☒	Smaller reporting company☐
		Emerging growth company☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

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

As of October 28, 2022, there were 100,961,986 shares of common stock, $0.001 par value per share outstanding.

SOVOS BRANDS, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 24, 2022

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PART I. Financial Information

Item 1. Financial Statements (Unaudited)

Sovos Brands, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, dollars in thousands, except par value and share data)

	September 24, 2022	December 25, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 81,926	$ 66,154
Accounts receivable, net	83,964	70,729
Inventories	84,086	51,615
Prepaid expenses and other current assets	5,865	6,685
Total current assets	**255,841**	**195,183**
Property and equipment, net	65,132	62,671
Operating lease right-of-use assets	13,932	15,672
Goodwill	395,399	437,451
Intangible assets, net	444,225	464,655
Other long-term assets	3,978	2,299
TOTAL ASSETS	**$ 1,178,507**	**$ 1,177,931**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 52,203	$ 37,254
Accrued expenses	60,373	51,757
Current portion of long-term debt	98	98
Current portion of long-term lease liabilities	3,298	3,216
Total current liabilities	**115,972**	**92,325**
Long-term debt, net of debt issuance costs	482,114	481,420
Deferred income taxes	65,736	76,976
Long-term operating lease liabilities	14,912	17,302
Other long-term liabilities	459	421
TOTAL LIABILITIES	**679,193**	**668,444**
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value per share, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value per share, 500,000,000 shares authorized, 100,961,986 and 100,892,547 shares issued and outstanding as of September 24, 2022 and December 25, 2021, respectively	101	101
Additional paid-in-capital	572,466	559,226
Accumulated deficit	(74,604)	(49,840)
Accumulated other comprehensive income	1,351	—
TOTAL STOCKHOLDERS' EQUITY	**499,314**	**509,487**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,178,507**	**$ 1,177,931**

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

Sovos Brands, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, dollars in thousands, except share and per share data)

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net sales	$ 208,907	$ 178,733	$ 616,273	$ 529,942
Cost of sales	147,090	128,878	445,525	368,642
Gross profit	**61,817**	**49,855**	**170,748**	**161,300**
Operating expenses:				
Selling, general and administrative	43,965	31,189	117,329	91,367
Depreciation and amortization	7,209	7,236	21,612	21,631
Impairment of goodwill	—	—	42,052	—
Loss on extinguishment of debt	—	—	—	9,717
Total operating expenses	**51,174**	**38,425**	**180,993**	**122,715**
Operating income (loss)	10,643	11,430	(10,245)	38,585
Interest expense, net	6,679	12,547	18,414	24,613
Income (loss) before income taxes	**3,964**	**(1,117)**	**(28,659)**	**13,972**
Income tax (expense) benefit	(2,500)	(3,497)	3,895	(8,213)
Net income (loss)	**$ 1,464**	**$ (4,614)**	**$ (24,764)**	**$ 5,759**
Earnings (loss) per share:				
Basic	$ 0.01	$ (0.06)	$ (0.25)	$ 0.08
Diluted	$ 0.01	$ (0.06)	$ (0.25)	$ 0.08
Weighted average shares outstanding:				
Basic	100,913,121	74,058,447	100,901,161	74,058,447
Diluted	101,613,928	74,058,447	100,901,161	74,058,453

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

Sovos Brands, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited, dollars in thousands)

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income (loss)	$ 1,464	$ (4,614)	$ (24,764)	$ 5,759
Other comprehensive income:				
Change in net unrealized gain on derivative instruments	1,785	—	1,785	—
Income tax effect	(434)	—	(434)	—
Unrealized gain on derivative instruments, net of tax	1,351	—	1,351	—
Total comprehensive income (loss)	$ 2,815	$ (4,614)	$ (23,413)	$ 5,759

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

Sovos Brands, Inc.
Condensed Consolidated Statements of Changes in Stockholders’ Equity
(Unaudited, dollars in thousands, except share data)

	Common Stock		Stockholder's Note Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders’ Equity
	Shares	Amount					
Balance at June 25, 2022	100,912,023	$ 101	$ —	$ 567,860	$ (76,068)	$ —	$ 491,893
Equity-based compensation expense	—	—	—	4,606	—	—	4,606
Shares issued upon vesting of restricted stock units	49,963	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	1,351	1,351
Net income	—	—	—	—	1,464	—	1,464
Balance at September 24, 2022	**100,961,986**	**$ 101**	**$ —**	**$ 572,466**	**$ (74,604)**	**$ 1,351**	**$ 499,314**

	Common Stock		Stockholder's Note Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders’ Equity
	Shares	Amount					
Balance at December 25, 2021	100,892,547	$ 101	$ —	$ 559,226	$ (49,840)	$ —	$ 509,487
Equity-based compensation expense	—	—	—	13,240	—	—	13,240
Shares issued upon vesting of restricted stock units	69,439	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	1,351	1,351
Net loss	—	—	—	—	(24,764)	—	(24,764)
Balance at September 24, 2022	**100,961,986**	**$ 101**	**$ —**	**$ 572,466**	**$ (74,604)**	**$ 1,351**	**$ 499,314**

	Common Stock		Stockholder's Note Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders’ Equity
	Shares	Amount					
Balance at June 26, 2021	74,058,447	$ 74	$ —	$ 255,491	$ (41,386)	$ —	$ 214,179
Equity-based compensation expense	—	—	—	979	—	—	979
Dividend distribution ($5.40 per share)	—	—	—	—	—	—	—
Net loss	—	—	—	—	(4,614)	—	(4,614)
Balance at September 25, 2021	**74,058,447**	**$ 74**	**$ —**	**$ 256,470**	**$ (46,000)**	**$ —**	**$ 210,544**

	Common Stock		Stockholder's Note Receivable	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders’ Equity
	Shares	Amount					
Balance at December 26, 2020	74,058,447	$ 74	$ (6,000)	$ 654,386	$ (51,759)	$ —	$ 596,701
Proceeds from stockholder's note receivable	—	—	6,000	—	—	—	6,000
Equity-based compensation expense	—	—	—	2,084	—	—	2,084
Dividend distribution ($5.40 per share)	—	—	—	(400,000)	—	—	(400,000)
Net income	—	—	—	—	5,759	—	5,759
Balance at September 25, 2021	**74,058,447**	**$ 74**	**$ —**	**$ 256,470**	**$ (46,000)**	**$ —**	**$ 210,544**

See accompanying notes to the unaudited condensed consolidated financial statements.

Sovos Brands, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in thousands)

	39 Weeks Ended	
	September 24, 2022	September 25, 2021
Operating activities		
Net income (loss)	$ (24,764)	$ 5,759
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	29,184	28,302
Equity-based compensation expense	13,240	2,084
Loss on foreign currency contracts	3,255	—
Deferred income taxes	(11,674)	6,516
Amortization of debt issuance costs	949	1,566
Non-cash operating lease expense	1,818	1,683
Provision for excess and obsolete inventory	2,350	—
Loss on disposal of property and equipment	—	54
Impairment of goodwill	42,052	—
Loss on extinguishment of debt	—	9,717
Other	—	229
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,234)	(18,931)
Inventories	(34,823)	(13,642)
Prepaid expenses and other current assets	215	(6,588)
Other long-term assets	372	396
Accounts payable	14,674	2,582
Accrued expenses	5,504	649
Other long-term liabilities	38	12
Operating lease liabilities	(2,386)	(2,083)
Net cash provided by operating activities	**26,770**	**18,305**
Investing activities		
Purchases of property and equipment	(10,939)	(5,111)
Net cash used in investing activities	**(10,939)**	**(5,111)**
Financing activities		
Payments of debt issuance costs	—	(3,046)
Proceeds from long-term debt	—	769,136
Repayments of long-term debt	—	(374,146)
Repayments of capital lease obligations	(59)	(49)
Proceeds from stockholder's note receivable	—	6,000
Contingent earn out consideration paid	—	(5,000)
Dividends paid	—	(400,000)
Net cash used in financing activities	**(59)**	**(7,105)**
Cash and cash equivalents		
Net increase in cash and cash equivalents	15,772	6,089
Cash and cash equivalents at beginning of period	66,154	37,026
Cash and cash equivalents at end of period	**$ 81,926**	**$ 43,115**

(Continued)

	39 Weeks Ended			
	September 24, 2022		September 25, 2021	
Supplemental disclosures of cash flow information				
Cash paid for interest	$	19,309	$	18,603
Cash paid for taxes		3,670		2,236
Proceeds from income tax refunds		(11)		(44)
Non-cash investing and financing transactions				
Lease liabilities arising from operating lease right-of-use assets recognized at ASU No. 2016-02 transition	$	—	$	21,711
Lease liabilities arising from operating lease right-of-use assets recognized after ASU No. 2016-02 transition		78		1,638
Acquisition of property and equipment not yet paid		314		43

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

Notes to Unaudited Condensed Consolidated Financial Statements

1. Company Overview

Sovos Brands, Inc. and its subsidiaries (the "Company," "we," "our") is a consumer-packaged food company that creates value for its stockholders through acquisition and executive management of brands in the food industry. On September 22, 2021, Sovos Brands, Inc. priced its initial public offering (the "IPO") of 23,334,000 shares of its common stock, $0.001 par value per share, which excluded the underwriters' option to purchase up to an additional 3,500,100 shares of common stock, at an offering price of $12.00 per share. In conjunction with the IPO, the Company became actively traded on the Nasdaq Global Select Market ("NASDAQ") listed under the trade symbol of "SOVO." Upon the closing of the IPO on September 27, 2021, the Company issued 23,334,000 shares of its common stock and received approximately $263.2 million, net of underwriting discounts and commissions. Subsequent to the IPO, the underwriters exercised their options to purchase an additional 3,500,100 shares of common stock. The Company closed its sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, net of underwriting discounts and commissions. See Note 13. *Stockholders' Equity* for additional information.

On August 10, 2022, the Company completed a secondary offering, in which certain of its stockholders (the "Selling Stockholders") sold 8,500,000 shares of common stock in an underwritten public offering at an offering price of $14.00 per share, with all proceeds going to the Selling Stockholders. Subsequent to the secondary offering, the underwriters exercised their option to purchase an additional 1,275,000 shares of common stock, and the sale of such additional shares closed on August 22, 2022, with all proceeds going to the Selling Stockholders.

Prior to the IPO, Sovos Brands Limited Partnership (the "Ultimate Parent" or the "Limited Partnership") owned 100% of Sovos Brands, Inc., which owns 100% of Sovos Brands Holdings, Inc., which owns 100% of Sovos Brands Intermediate, Inc. ("Sovos Intermediate"). Sovos Intermediate has four wholly-owned operating subsidiaries: Rao's Specialty Foods, Inc. ("Rao's"); Bottom Line Food Processors, Inc. doing business as Michael Angelo's Gourmet Foods, Inc. ("Michael Angelo's"); Noosa Yoghurt, LLC ("Noosa"); and Birch Benders, LLC ("Birch Benders"). Through its wholly-owned operating subsidiaries, the Company produces and distributes food products in various locations throughout the United States. The Company was founded on January 17, 2017 and has its executive headquarters in Louisville, Colorado.

The unaudited condensed consolidated financial statements include the accounts of Sovos Brands, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. Unless the context otherwise requires, "we," "us," "our," "Sovos Brands" and the "Company" refer to Sovos Brands, Inc. and its subsidiaries.

The Company maintains its accounting records on a 52/53-week fiscal year, ending on the last Saturday in December of each year. Our fiscal year ending December 31, 2022 ("fiscal 2022") will have 53 weeks.

Description of Business

Sovos Brands, Inc. is a consumer-packaged food company that is focused on acquiring and building disruptive growth brands that bring today's consumers great tasting food that fits the way they live. The Company's principal products include a variety of pasta sauces, dry pasta, soups, frozen entrees, yogurts, gelato, pancake and waffle mixes, other baking mixes and frozen waffles, which are primarily sold in the United States. The Company sells products marketed under the brand names *Rao's*, *Michael Angelo's*, *noosa* and *Birch Benders* which are built with authenticity at their core, providing consumers food experiences that are genuine, delicious, and unforgettable. Our premium products are made with simple, high-quality ingredients. We are focused on continuing to build an organization with the capabilities to acquire, integrate and grow brands. We strive to empower our teams to lead with courage and tenacity, with the goal of providing them with the confidence and agility to connect with our consumers and retail partners to drive unparalleled growth. We believe our focus on "one-of-a-kind" brands and products that people love and our passion for our people make Sovos Brands a "one-of-a-kind" company and enables us to deliver on our objective of creating a growing and sustainable food enterprise yielding financial growth ahead of industry peers.

Unaudited Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements and related notes of the Company and its subsidiaries are unaudited. The unaudited interim condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles ("GAAP") and the rules and regulations of the Securities and Exchange Commission (the "SEC"). The unaudited interim condensed consolidated financial statements reflect all adjustments and disclosures which are, in our opinion, necessary for a fair presentation of the results of operations, financial position and cash flows for the indicated periods. All such adjustments were of a normal and recurring nature. The year-end balance sheet data was derived from the audited financial statements and, in accordance with the instructions to Form 10-Q, certain information and footnote disclosures required by GAAP have been condensed or omitted. The results reported in these unaudited interim condensed consolidated financial statements are not necessarily indicative of the results that may be reported for the entire fiscal year and should be read in conjunction with our consolidated financial statements for the fiscal year ended December 25, 2021, included in our Annual Report on Form 10-K, as amended, filed with the SEC on March 15, 2022 ("2021 Form 10-K").

2. Summary of Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies as compared to the significant accounting policies described in Note 2. *Summary of Significant Accounting Policies*, to the consolidated financial statements included in the Company's 2021 Form 10-K, other than what is described below.

Hedging and Derivative Financial Instruments

We are exposed to certain risks relating to our ongoing business operations. From time to time, we use derivative financial instruments, principally option contracts, collars and interest rate caps, to reduce our exposure to foreign currency risk and interest rate risk. We do not hold or issue derivatives for speculative purposes.

The Financial Accounting Standards Board (the "FASB") issued ASC 815, *Derivatives and Hedging* ("ASC 815"), which provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

Derivative instruments are recorded at fair value in the Condensed Consolidated Balance Sheets and are classified based on the contractual maturity of the instrument or the timing of the underlying cash flows. The fair value of derivative instruments is reflected in prepaid expenses and other current assets, other long-term assets or accrued expenses. On the Condensed Consolidated Statements of Cash Flows, cash flows associated with derivative instruments are classified according to the nature of the underlying hedged item.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship, whether the Company has elected to apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge that are exposed to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the earnings effect of the hedged forecasted transactions in a cash flow hedge. Changes in fair value of the cash flow hedges are recognized in the Condensed Consolidated Statements of Comprehensive Income in other comprehensive income ("OCI"). The Company may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Derivative instruments that have not been designated in an effective hedging relationship are considered economic hedges, and their change in fair value is recognized in the Condensed Consolidated Statements of Operations in selling, general and administrative.

In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

See Note 12. *Hedging and Derivative Financial Instruments* for additional information.

New Accounting Pronouncements and Policies

Recently Issued Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* The amendments of ASU No. 2020-04 apply only to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The guidance in ASU 2020-04 is optional and may be elected over time as reference rate reform activities occur. During Q3 2022 the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. The Company will continue to monitor the effects of rate reform, if any, on its contracts and the effects of adoption of these ASUs through December 31, 2022. The Company does not anticipate the amendments of this ASU to have a material impact to its consolidated financial statements upon adoption.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments-Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*. The Company previously adopted ASU 2016-13, Financial Instruments-Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments effective December 27, 2020, and therefore this amendment is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amendments of ASU 2022-02 require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. The Company expects the impact of this amendment to be administrative and does not anticipate any material impact to the consolidated financial statements.

3. Revenue Recognition

Revenue disaggregated by brand is as follows:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Rao's	$ 135,189	$ 101,118	$ 392,399	$ 299,632
Noosa	42,703	41,712	132,102	124,298
Michael Angelo's	21,269	22,090	61,251	59,687
Birch Benders	9,746	13,813	30,521	46,325
Total net sales	$ 208,907	$ 178,733	$ 616,273	$ 529,942

4. Inventories

Inventories consisted of the following:

(In thousands)	September 24, 2022	December 25, 2021
Finished goods	$ 71,386	$ 38,715
Raw materials and packaging supplies	12,700	12,900
Total inventories	$ 84,086	$ 51,615

5. Goodwill

Changes in the carrying value of *Goodwill* during the 39 weeks ended September 24, 2022 were as follows:

(In thousands)	Goodwill
Balance as of December 25, 2021	$ 437,451
Impairment	(42,052)
Balance as of September 24, 2022	$ 395,399

In the second quarter of 2022, the Company identified the underperformance of the *Birch Benders* reporting unit as an indicator that required a quantitative assessment to be performed. The Company compared the estimated fair value of the *Birch Benders* reporting unit to the carrying value of its assets and liabilities, including goodwill. The fair value was established using generally accepted valuation methodologies, including discounted cash flow analysis and comparable public company analysis, both methods weighted equally. It was determined that the carrying value of the goodwill exceeded the Company's estimate of the implied fair value of goodwill. As a result, the Company recorded an impairment charge for the full amount of goodwill, $42.1 million, for the 13 weeks ended June 25, 2022.

There were no impairment charges related to goodwill during the 13 weeks ended September 24, 2022 or during the 13 weeks or 39 weeks ended September 25, 2021.

6. Intangible Assets, Net

Intangible asset, net, consisted of the following:

	September 24, 2022		
(In thousands)	Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets - definite lives			
Customer relationships	$ 213,000	$ 84,732	$ 128,268
Tradename	192,347	29,390	162,957
	405,347	114,122	291,225
Intangible assets - indefinite lives			
Tradename	153,000	—	153,000
Total intangible assets	$ 558,347	$ 114,122	$ 444,225

(In thousands)	December 25, 2021 Gross carrying amount	Accumulated amortization	Net carrying amount
Intangible assets - definite lives			
Customer relationships	$ 213,000	$ 71,330	$ 141,670
Tradename	192,347	22,362	169,985
	405,347	93,692	311,655
Intangible assets - indefinite lives			
Tradename	153,000	—	153,000
Total intangible assets	$ 558,347	$ 93,692	$ 464,655

Amortization expense related to intangible assets during the 13 weeks ended September 24, 2022 and September 25, 2021 was $6.8 million and $6.8 million, respectively. Amortization expense related to intangible assets during the 39 weeks ended September 24, 2022 and September 25, 2021 was $20.4 million and $20.4 million, respectively.

Intangible assets with definite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. In the second quarter of 2022, the Company identified underperformance of the *Birch Benders* reporting unit and accordingly, performed a recoverability test to determine if the carrying amounts of the *Birch Benders* Customer relationships and Tradename intangible assets with definite useful lives are recoverable and whether the carrying amount exceeds its fair value. The results of the recoverability test using an undiscounted cash flow model indicated that the fair value exceeded the carrying value, and therefore no impairment was recorded.

There were no impairment charges related to intangible assets during the 13 weeks or 39 weeks ended September 24, 2022 and September 25, 2021.

Estimated total intangible amortization expense during the next five fiscal years and thereafter is as follows:

(In thousands)	Amortization
Remainder of 2022	$ 6,810
2023	27,240
2024	27,240
2025	27,240
2026	27,240
2027 and thereafter	175,455
Total	$ 291,225

7. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	September 24, 2022	December 25, 2021
Accrued trade	$ 26,793	$ 23,122
Accrued general expense	18,952	15,327
Accrued compensation and benefits	12,527	10,478
Accrued marketing	2,101	2,830
Total accrued expenses	$ 60,373	$ 51,757

8. Long-Term Debt

Long-term debt consisted of the following:

(In thousands)	September 24, 2022 Principal	September 24, 2022 Unamortized debt issuance costs	September 24, 2022 Total debt, net
Initial First Lien Term Loan Facility	$ 480,800	$ (5,624)	$ 475,176
Finance lease liabilities	7,036	—	7,036
Total debt	$ 487,836	$ (5,624)	482,212
Less: current portion of finance lease liabilities			98
Total long-term debt			$ 482,114

(In thousands)	December 25, 2021 Principal	December 25, 2021 Unamortized debt issuance costs	December 25, 2021 Total debt, net
Initial First Lien Term Loan Facility	$ 480,800	$ (6,377)	$ 474,423
Finance lease liabilities	7,095	—	7,095
Total debt	$ 487,895	$ (6,377)	481,518
Less: current portion of finance lease liabilities			98
Total long-term debt			$ 481,420

Senior Debt

In November 2018, in conjunction with the acquisition of Noosa, Sovos Intermediate (“Borrower”) entered into a Credit Facility Agreement with Credit Suisse, Citizens Bank N.A. (“Citizens”), Deutsche Bank and Aresbank, S.A. (“Credit Agreement”) with a term loan of $280 million (“2018 Term Loan”) and a revolving line of credit of $45 million (“Revolving Line of Credit”). In accordance with the Credit Agreement, the Company repaid the outstanding 2017 term loan of $158.4 million with Citizens as well as the amount outstanding under the revolving line of credit of $7.0 million.

In October 2020, the Company entered into an amendment to its Credit Agreement (“Amended Credit Agreement”). The Amended Credit Agreement provided, among other things, for an additional $100.0 million term loan (the “Incremental Term Loan”) which was part of the same class and had the same terms as the 2018 Term Loan. The Company analyzed the amendment and determined the Incremental Term Loan was not considered a debt modification because the existing 2018 Term Loan was not paid off. The Company paid debt issuance costs related to the Incremental Term Loan of $3.2 million, which were all capitalized.

In June 2021, Sovos Intermediate entered into a First Lien Credit Agreement (“First Lien Credit Agreement”) among Sovos Intermediate, Sovos Brands Holdings, Inc., Credit Suisse AG, Cayman Islands Branch (“Credit Suisse”), as administrative agent and collateral agent, and the lenders and issuing banks from time to time party thereto (“First Lien Lenders”), consisting of an initial term loan facility of $580.0 million (“Initial First Lien Term Loan Facility”), and a revolving credit facility of $125.0 million (“Revolving Facility”), including a letter of credit facility with a $45.0 million sublimit. Also in June 2021, Sovos Intermediate entered into a Second Lien Credit Agreement (“Second Lien Credit Agreement”) among Sovos Intermediate, Sovos Brands Holdings, Inc., Owl Rock Capital Corporation, as administrative agent and collateral agent, and the lenders from time to time party thereto (“Second Lien Lenders”), consisting of an initial term loan facility of $200.0 million (“Initial Second Lien Facility”). In accordance with the First Lien Credit Agreement and Second Lien Credit Agreement, the Company repaid the outstanding 2018 Term Loan and Incremental Term Loan of $373.2 million to Credit Suisse and made a restricted payment for the purpose of paying a dividend in the amount of

$400.0 million to the direct or indirect equity holders of the Ultimate Parent. See Note 13. *Stockholders' Equity* for further information on the dividend payment.

As the June 2021 debt transaction on the Initial First Lien Term Loan Facility and Initial Second Lien Facility was accounted for as an extinguishment of the old debt, the Company wrote off $9.4 million of the existing 2018 Term Loan and Incremental Term Loan debt issuance costs to expense. The Initial First Lien Term Loan Facility and Initial Second Lien Facility were issued with discounts of $1.5 million and $4.0 million respectively, and the Company paid debt issuance costs of $6.8 million and $0.5 million respectively. The discounts and debt issuance costs paid on the Initial First Lien Term Loan Facility and Initial Second Lien Facility were capitalized. The debt transaction on the Revolving Facility was accounted for as a debt modification. The Company continued to amortize $0.2 million of the existing Revolving Line of Credit debt issuance costs over the new life of the debt, wrote off $0.3 million of the existing Revolving Line of Credit debt issuance costs to expense, and paid $1.1 million in debt issuance costs for the new Revolving Facility, which was capitalized.

In September 2021, using net proceeds of the IPO, the Company paid the full outstanding principal balance on the Initial Second Lien Facility of $200.0 million plus accrued interest of approximately $2.9 million. Upon the full prepayment of the Initial Second Lien Facility, the Company recognized a loss on the loan extinguishment resulting in a write-off of $4.3 million of the related unamortized issuance costs and discounts. Additionally, in September 2021 and October 2021, the Company prepaid $59.7 million and $39.5 million, respectively, of the outstanding principal balance under the Initial First Lien Term Loan Facility, plus total accrued interest of approximately $0.9 million. Upon the partial prepayment of the Initial First Lien Term Loan Facility, the Company recognized a $1.4 million proportional loss on the partial extinguishment of the related unamortized issuance costs and discounts.

The remaining principal balance on the Initial First Lien Term Loan Facility, after the $59.7 million and $39.5 million prepayments, is $480.8 million. The Company has directed Credit Suisse to apply the prepayments against future scheduled principal installments, which eliminates all future principal payments for the remaining term of the loan.

The amortization of debt issuance costs and discount of $0.3 million and $0.5 million for the 13 weeks ended September 24, 2022 and September 25, 2021, respectively, and $0.9 million and $1.6 million for the 39 weeks ended September 24, 2022 and September 25, 2021, respectively, is included within interest expense, net in the Condensed Consolidated Statements of Operations.

The interest rate for the Initial First Lien Term Loan Facility and Revolving Facility is London Inter-Bank Offered Rate ("LIBO Rate") plus an applicable rate contingent on the Company's calculated first lien leverage ratio, ranging from 400 to 425 basis points, and is subject to a 50 basis points reduction, at each level, after the consummation of an initial public offering (as used in this paragraph, an "IPO"). In no event shall the LIBO Rate be less than 0.75% per annum for the Initial First Lien Term Loan Facility or less than 0.00% per annum for the Revolving Line of Credit. The Initial First Lien Term Loan Facility matures on June 8, 2028 and the Revolving Facility matures on June 8, 2026. The Initial First Lien Term Loan Facility is collateralized by substantially all of the assets of the Company.

The interest rate for the Initial Second Lien Facility was LIBO Rate plus 8.00% per annum and was subject to a 25 basis points reduction after the consummation of an IPO. In no event could the LIBO Rate be less than 0.75% per annum. The Initial Second Lien Facility was originally scheduled to mature on June 8, 2029 and was collateralized by substantially all of the assets of the Company. As described above, in September 2021, the Initial Second Lien Facility was paid in full.

As of September 27, 2021, the closing date of the IPO, the interest rate on the Initial First Lien Term Loan Facility and Revolving Facility decreased 50 basis points. As of September 24, 2022 and December 25, 2021, the effective interest rate for the Initial First Lien Term Loan Facility and Revolving Facility was 6.02% and 4.50%, respectively.

In July 2022, the Company entered into an interest rate hedge. See Note 12. *Hedging and Derivative Financial Instruments* for additional information.

As of September 24, 2022 and December 25, 2021, the Company had available credit of $125 million under the Revolving Facility. There was zero outstanding on the Revolving Facility as of September 24, 2022 and December 25, 2021.

Loan Covenants

In connection with the First Lien Credit Agreement, the Company has various financial, affirmative and negative covenants that it must adhere to as specified within the loan agreements. The First Lien Credit Agreement contains a springing financial covenant, which requires the Borrower to maintain a first lien net leverage ratio of consolidated first lien net debt to consolidated EBITDA (with certain adjustments as set forth in the First Lien Credit Agreement) no greater than 6.95:1.00. Such financial covenant is tested only if outstanding revolving loans (excluding any undrawn letters of credit) minus unrestricted cash exceed 35% of the aggregate revolving credit commitments. The financial covenant is subject to customary "equity cure" rights. In addition, under the First Lien Credit Agreement, an annual excess cashflow calculation is required, to determine if any excess is required to be paid on the Initial First Lien Term Loan Facility. As of September 24, 2022, the Company had no outstanding revolving loans, so did not meet the requirement to test the financial covenant under the First Lien Credit Agreement.

See Note 9. *Leases* and Note 16. *Related Party Transactions* for additional discussion of the finance lease liabilities.

9. Leases

The Company leases real estate in the form of distribution centers, manufacturing facilities, equipment and office space. Generally, the term for real estate leases ranges from 2 to 10 years at inception of the contract. Generally, the term for equipment leases is 5 years at inception of the contract. Most manufacturing facilities and office space leases include one or more options to renew, with renewal terms that generally can extend the lease term from 2 to 30 years. The exercise of lease renewal options is at the Company's discretion.

Operating and finance lease costs are included within Cost of sales and Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. Sublease income was not material for the periods presented.

The components of lease expense were as follows:

(In thousands)	Statement of Operations Caption	13 Weeks Ended September 24, 2022	13 Weeks Ended September 25, 2021	39 Weeks Ended September 24, 2022	39 Weeks Ended September 25, 2021
Operating lease cost:					
Lease cost	*Cost of sales and Selling, general and administrative*	$ 823	$ 841	$ 2,502	$ 2,426
Variable lease cost [1]	*Cost of sales and Selling, general and administrative*	379	356	1,099	1,012
Total operating lease cost		1,202	1,197	3,601	3,438
Short term lease cost	*Cost of sales and Selling, general and administrative*	81	61	177	172
Finance lease cost:					
Amortization of right-of-use assets	*Cost of sales and Selling, general and administrative*	66	66	196	196
Interest on lease liabilities	*Interest expense, net*	132	133	397	399
Total finance lease cost		198	199	593	595
Total lease cost		$ 1,481	$ 1,457	$ 4,371	$ 4,205

(1) Variable lease cost primarily consists of common area maintenance, utilities, taxes and insurance.

The gross amount of assets and liabilities related to both operating and finance leases were as follows:

(In thousands)	Balance Sheet Caption	September 24, 2022	December 25, 2021
Assets			
Operating lease right-of-use assets	*Operating lease right-of-use assets*	$ 13,932	$ 15,672
Finance lease right-of-use assets	*Property and equipment, net*	6,103	6,299
Total lease assets		$ 20,035	$ 21,971
Liabilities			
Current:			
Operating lease liabilities	*Current portion of long-term operating lease liabilities*	$ 3,298	$ 3,216
Finance lease liabilities	*Current portion of long-term debt*	98	98
Long-term:			
Operating lease liabilities	*Long-term operating lease liabilities*	14,912	17,302
Finance lease liabilities	*Long-term debt, net of debt issuance costs*	6,938	6,997
Total lease liabilities		$ 25,246	$ 27,613

The weighted-average remaining lease term and weighted-average discount rate for operating and finance leases were as follows:

	September 24, 2022	December 25, 2021
Weighted-average remaining lease term (in years):		
Operating leases	6.6	7.1
Finance leases	34.3	34.8
Weighted-average discount rate		
Operating leases	4.9 %	4.9 %
Finance leases	7.8 %	7.8 %

Future maturities of lease liabilities as of September 24, 2022, were as follows:

(In thousands)	Operating Leases	Finance Leases
Fiscal year ending:		
Remainder of 2022	$ 1,050	$ 151
2023	4,062	609
2024	3,493	557
2025	2,982	549
2026	3,005	520
Thereafter	6,920	18,970
Total lease payments	21,512	21,356
Less: Interest	(3,302)	(14,320)
Present value of lease liabilities	$ 18,210	$ 7,036

As of September 24, 2022, the Company did not have any significant additional operating or finance leases that have not yet commenced.

Supplemental cash flow and other information related to leases were as follows:

	39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 3,042	$ 2,883
Operating cash flows from finance leases	397	399
Financing cash flows from finance leases	59	$ 49
Right-of-use assets obtained in exchange for new lease liabilities		
Finance leases	—	—
Operating leases	78	1,638

10. Commitments and Contingencies

Litigation

From time to time, we are subject to various legal actions arising in the ordinary course of our business. We cannot predict with reasonable assurance the outcome of these legal actions brought against us as they are subject to uncertainties. Accordingly, any settlement or resolution in these legal actions may occur and affect our net income (loss) in such period as the settlement or resolution. We do not believe the outcome of any existing legal actions would have a material adverse effect on our consolidated financial statements taken as a whole.

Purchase Commitments

As of September 24, 2022, the Company had purchase commitments to third-party suppliers, primarily for materials and supplies used in the manufacture of the Company's products, for an aggregate of $25.2 million.

See Note 16. *Related Party Transactions* for information about our commitments to related parties.

11. Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date, and establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: inputs for the asset or liability that are based on unobservable inputs in which there is little or no market data.

Cash and cash equivalents, current assets and current liabilities

Cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses are reflected in the Condensed Consolidated Balance Sheets at carrying value, which approximates fair value due to the short-term nature of these instruments.

Borrowing instruments

The Company's borrowing instruments are recorded at their carrying values in the Condensed Consolidated Balance Sheets, which may differ from their respective fair values. The carrying values and estimated fair values of the Company's Initial First Lien Term Loan Facility and Revolving Facility approximate their carrying values as of September 24, 2022 and December 25, 2021, based on interest rates currently available to the Company for similar borrowings.

Derivative financial instruments

The Company uses option contracts to manage foreign currency risk and uses interest rate caps (options) to manage interest rate risk. The Company's derivative assets and liabilities are carried at fair value as required by GAAP. The estimated fair values of the derivative assets and liabilities on the Company's forward contracts is based on foreign currency exchange rates in active markets. The estimated fair value of the interest rate instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

To comply with the provisions of ASC 820, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourself and our counterparties. We have determined that the significance of the impact of the credit valuation adjustments made to our derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of our derivatives held as of September 24, 2022 were classified as Level 2 of the fair value hierarchy. There were no derivative financial instruments as of December 25, 2021.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 24, 2022, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Fair Value Measurements Using			
(In thousands)	**Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance at September 24, 2022**
Assets				
Derivatives in cash flow hedging relationships	$ —	$ 3,435	$ —	$ 3,435
Total assets	$ —	$ 3,435	$ —	$ 3,435
Liabilities				
Derivatives not designated as hedging instruments	$ —	$ 3,255	$ —	$ 3,255
Total liabilities	$ —	$ 3,255	$ —	$ 3,255

The fair value estimates presented herein are based on information available to management as of September 24, 2022. These estimates are not necessarily indicative of the amounts we could ultimately realize. See Note 12. *Hedging and Derivative Financial Instruments* for additional information.

Non-financial assets

The Company's non-financial assets, which primarily consist of property and equipment, right-of-use assets, goodwill and other intangible assets, are not required to be carried at fair value on a recurring basis and are reported at carrying value. The fair values of these assets are determined, as required, based on Level 3 measurements, including estimates of the amount and timing of future cash flows based upon historical experience, expected market conditions, and management's plans.

For the 13 weeks ended June 25, 2022, the Company determined that the carrying value of the Birch Benders goodwill exceeded its estimate of the implied fair value of goodwill. As a result, the Company recorded an impairment charge for the full amount of goodwill, $42.1 million, for the 13 weeks ended June 25, 2022. See Note 5. *Goodwill* for additional information.

There were no transfers of financial instruments between the three levels of fair value hierarchy during the 13 weeks and 39 weeks ended September 24, 2022 and the fiscal year ended December 25, 2021.

12. Hedging and Derivative Financial Instruments

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risk managed by the Company through the use of derivative instruments is foreign currency exchange rate risk and interest rate risk.

The Company uses various types of derivative instruments including, but not limited to, option contracts, collars and interest rate caps. An option contract is an agreement that conveys the purchaser the right, but not the obligation, to buy or sell a quantity of a currency or commodity at a predetermined rate or price during a period or at a time in the future. A collar is a strategy that uses a combination of options to limit the range of possible positive or negative returns on an underlying asset or liability to a specific range, or to protect expected future cash flows. To do this, an investor simultaneously buys a put option and sells (writes) a call option, or alternatively buys a call option and sells (writes) a put option. An interest rate cap involves the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. We do not enter into derivative financial instruments for trading purposes.

All derivative instruments are carried at fair value in the Condensed Consolidated Balance Sheets, primarily in the following line items, as applicable: prepaid expenses and other current assets, other long-term assets and accrued expenses. The carrying values of the derivatives reflect the impact of netting agreements. These netting agreements allow the Company to net settle positive and negative positions (assets and liabilities) arising from different transactions with the same counterparty.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationships. Derivatives can be designated as fair value hedges, cash flow hedges or economic hedges. The interest rate cap derivative is designated and qualifies as a cash flow hedge. The foreign currency derivative instruments are considered an economic hedge as they do not qualify for hedge accounting treatment.

The Company determines the fair values of its derivatives based on quoted market prices or pricing models using current market rates. The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates or foreign currency exchange rates. The Company does not view the fair values of its derivatives in isolation but rather in relation to the fair values or cash flows of the underlying hedged transactions or other exposures. Virtually all our derivatives are straightforward over-the-counter instruments with liquid markets. See Note 11. *Fair Value of Financial Instruments* for additional information.

Cash Flow Hedges of Interest Rate Risk

The Company’s objectives in using interest rate derivatives are to add stability to interest expense and manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate caps as part of its interest rate risk management strategy. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. During the 39 weeks ended September 24, 2022, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in OCI in the Condensed Consolidated Statements of Other Comprehensive Income and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in OCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company’s variable-rate debt. Over the next 12 months, the Company estimates that an additional $0.7 million will be reclassified as a reduction to interest expense.

During the 13 weeks ended September 24, 2022, the Company entered into a cash flow hedge to manage interest rate risk on its variable rate under the Initial First Lien Term Loan Facility. As of September 24, 2022, the Company had one LIBOR interest rate cap agreement with a total hedged notional amount of $240.0 million that was designated as a cash flow hedge of interest rate risk. The interest rate cap has a strike price of 4.00% and a maturity date of July 31, 2024. The interest rate cap was determined to be fully effective during all periods presented.

Within the Company's Condensed Consolidated Balance Sheets, the interest rate cap is recorded at fair value. The cash flows related to the interest rate caps are classified as operating activities in the Condensed Consolidated Statements of Cash Flows.

Economic (Non-Designated) Hedging Strategy

The Company uses certain derivatives as economic hedges of foreign currency. Although these derivatives did not qualify for hedge accounting, they are effective economic hedges. The Company uses foreign currency economic hedges to offset the earnings impact that fluctuations in foreign currency exchange rates have on certain monetary assets and liabilities denominated in nonfunctional currencies outside of a contractually agreed upon foreign exchange rate range. The total notional values of derivatives related to our foreign currency economic hedges were $223.0 million and $0 as of September 24, 2022 and December 25, 2021, respectively.

The changes in the fair values of economic hedges used to offset those monetary assets and liabilities are immediately recognized in earnings in the selling, general and administrative line item in our Condensed Consolidated Statements of Operations. Within the Company's Condensed Consolidated Balance Sheets, the foreign currency economic hedges are recorded at fair value. The cash flows related to the foreign currency economic hedges are classified as operating activities in the Condensed Consolidated Statements of Cash Flows.

The following table presents the fair values of the Company's derivative instruments (in thousands):

		September 24, 2022		December 25, 2021	
	Condensed Consolidated Balance Sheets Location	**Derivative Assets**	**Derivative Liabilities**	**Derivative Assets**	**Derivative Liabilities**
Derivatives not designated as hedging instruments under Subtopic 815-20					
Foreign currency contracts[1]	Accrued expenses	$ —	$ 3,255	$ —	$ —
Total derivatives not designated as hedging instruments		$ —	$ 3,255	$ —	$ —
Derivatives designated as hedging instruments under Subtopic 815-20					
Interest rate caps - short term	Prepaid expenses and other current assets	$ 1,187	$ —	$ —	$ —
Interest rate caps - long term	Other long-term assets	2,248	—	—	—
Total derivatives designated as hedging instruments		$ 3,435	$ —	$ —	$ —
Total derivatives		$ 3,435	$ 3,255	$ —	$ —

(1) Derivative instruments within this category are subject to master netting arrangements and are presented on a net basis in the Condensed Consolidated Balance Sheets in accordance with ASC 210, Balance Sheet, Subtopic 210-20. See tables below showing the effects of offsetting derivative assets and liabilities.

The following table presents the pre-tax effect of cash flow hedge accounting on accumulated OCI for the periods presented (in thousands):

	Amount of Gain or (Loss) Recognized in OCI			
	13 Weeks Ended		39 Weeks Ended	
Derivatives in Subtopic 815-20 Hedging Relationships	**September 24, 2022**	**September 25, 2021**	**September 24, 2022**	**September 25, 2021**
Derivatives in cash flow hedging relationships				
Interest rate caps	$ (1,785)	$ —	$ (1,785)	$ —

	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income			
	13 Weeks Ended		39 Weeks Ended	
Location of Gain or (Loss) Reclassified from Accumulated OCI into Income	**September 24, 2022**	**September 25, 2021**	**September 24, 2022**	**September 25, 2021**
Derivatives in cash flow hedging relationships				
Interest expense, net	$ —	$ —	$ —	$ —

The following table presents the effect of the Company's derivative financial instruments on the Condensed Consolidated Statements of Operations for the periods presented (in thousands):

		Loss Recognized			
		13 Weeks Ended		39 Weeks Ended	
	Statement of Operations Location	**September 24, 2022**	**September 25, 2021**	**September 24, 2022**	**September 25, 2021**
Total amounts of expense presented in the Statements of Operations in which the derivatives not designated as hedging are recorded	Selling, general and administrative	$ 43,965	$ 31,189	$ 117,329	$ 91,367
The effects of derivatives not designated as hedging instruments under Subtopic 815-20:					
Foreign currency contracts	Selling, general and administrative	2,758	—	3,255	—
Total amounts of expense presented in the Statements of Operations in which the derivatives designated as hedging are recorded	Interest expense, net	6,679	12,547	18,414	24,613
The effects of derivatives designated as hedging instruments under Subtopic 815-20:					
Interest rate caps	Interest expense, net	—	—	—	—

The net amounts of derivative assets or liabilities in the tables below can be reconciled to the tabular disclosure of fair value which provides the location that derivative assets and liabilities are presented on the Condensed Consolidated Balance Sheets. The following tables present a gross presentation, the effects of offsetting, and a net presentation of the Company's derivatives as of September 24, 2022 (in thousands). The Company had no derivatives as of December 25, 2021.

Offsetting of Derivative Assets

As of September 24, 2022

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Financial Instruments	Cash Collateral Posted	Gross Amounts of Recognized Assets
Derivatives						
Foreign currency contracts	$ 25	$ (25)	$ —	$ —	$ —	$ —
Total derivatives, subject to a master netting arrangement	25	(25)	—	—	—	—
Total derivatives, not subject to a master netting arrangement	3,435	—	3,435	—	—	3,435
Total derivatives	$ 3,460	$ (25)	$ 3,435	$ —	$ —	$ 3,435

Offsetting of Derivative Liabilities

As of September 24, 2022

				Gross Amounts Not Offset in the Balance Sheet		
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Financial Instruments	Cash Collateral Posted	Net Amount
Derivatives						
Foreign currency contracts	$ (3,280)	$ 25	$ (3,255)	$ —	$ —	$ (3,255)
Total derivatives, subject to a master netting arrangement	(3,280)	25	(3,255)	—	—	(3,255)
Total derivatives, not subject to a master netting arrangement	—	—	—	—	—	—
Total derivatives	$ (3,280)	$ 25	$ (3,255)	$ —	$ —	$ (3,255)

13. Stockholders' Equity

Dividend distribution

On June 8, 2021, the Company paid a one-time cash dividend to the Ultimate Parent. The total amount of the dividend was $400 million and was recorded against additional paid-in capital ("APIC").

Stock split

On September 8, 2021, the Company filed a certificate of amendment to its Certificate of Incorporation ("Certificate of Amendment") with the Secretary of State of the State of Delaware. Prior to the effective date of the Certificate of Amendment, the Company was authorized to issue 750,000 shares of common stock at $0.01 par value. As a result of the filing of the Certificate of Amendment, the Company became authorized to issue 500,000,000 shares of common stock at $0.001 par value. Pursuant to the Certificate of Amendment, on September 8, 2021 the Company effected a stock split of its common stock, at a rate of 120.8-for-1 (the "Stock Split"), accompanied by a corresponding increase in the Company's issued and outstanding shares of common stock. No fractional shares of common stock were issued upon the Stock Split. Any holder of common stock with aggregated shares totaling to fractional shares were rounded up to the nearest whole share. The accompanying consolidated financial statements and related disclosure for periods prior to the Stock Split have been retroactively restated to reflect the filing of the Certificate of Amendment, including the Stock Split.

As a result of the Stock Split, the Company had a total of 74,058,447 shares issued and outstanding as of September 8, 2021. In connection with the IPO, on September 22, 2021, the Ultimate Parent distributed its shares of Sovos Brands, Inc. common stock to its limited partners, including holders of IUs, in accordance with the applicable terms of its partnership agreement.

Preferred Stock

On September 23, 2021, the Company filed an amended and restated certificate of incorporation ("Amended and Restated Charter") with the Secretary of State of the State of Delaware, which was effective on September 23, 2021. As a result of the filing of the Amended and Restated Charter, the Company was authorized to issue 510,000,000 shares, divided into two classes as follows: (i) 500,000,000 shares are designated shares of common stock, par value $0.001 per share, and (ii) 10,000,000 shares are designated shares of preferred stock, par value $0.001 per share.

Organizational Transactions

On September 27, 2021, the Company closed its IPO of 23,334,000 shares of common stock, $0.001 par value per share, at an offering price of $12.00 per share, and received net proceeds from the IPO of approximately $263.2 million, net of $16.8 million in underwriting discounts and commissions.

Subsequent to the IPO, the underwriters exercised their option to purchase an additional 3,500,100 shares of common stock. The Company closed its sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, net of $2.5 million in underwriting discounts and commissions.

As a result of the IPO and the exercise of the underwriters' option to purchase additional shares, the new investors in the Company owned 26,834,100 shares of the common stock, or approximately 26.6% of the total 100,892,547 shares of common stock outstanding after the IPO.

14. Equity-Based Compensation

Pre-IPO Equity

2017 Equity Incentive Plan

In 2017, the Ultimate Parent established the Sovos Brands Limited Partnership 2017 Equity Incentive Plan ("2017 Plan"), in which certain employees and nonemployees of the Company received equity-based compensation in the form of Incentive Units ("IUs") of the Ultimate Parent, as consideration for services to the Company. The IUs, were deemed to be equity instruments subject to expense recognition under FASB ASC 718, *Compensation — Stock Compensation.* The estimate of fair value of the IUs granted was determined as of the grant date.

The fair value of the IUs granted in 2019 and 2020 was estimated using a two-step process. First, the enterprise value of Sovos Brands Holdings, Inc. was established using two generally accepted valuation methodologies: discounted cash flow analysis and guideline comparable public company analysis. Second, the enterprise value was allocated among the securities that comprise the capital structure of Sovos Brands Holdings, Inc. using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

The fair value of the IUs granted in 2021 was estimated using the Probability Weighted Expected Return Method ("PWERM"), which is a forward-looking approach that was considered to be appropriate when expected future liquidity events, such as an IPO, are reasonably certain. The PWERM analysis considered three potential liquidation time horizons, ranging from current value to three years and assigned a 33.3% probability to each scenario. The valuation of the total company enterprise and equity values was calculated for each of the three scenarios, and then applied a weighted average calculation.

Distribution of Sovos Common Stock with respect to IUs

In connection with the IPO, the Ultimate Parent distributed its shares of Sovos Brands, Inc. common stock to its limited partners, including holders of IUs, in accordance with the applicable terms of its partnership agreement.

Holders of IUs received shares of common stock and restricted common stock of Sovos Brands, Inc. in respect of their IUs. The common stock was distributed with respect to vested IUs and the restricted common stock was distributed with respect to nonvested IUs, with the vesting of such restricted common stock tracking the same vesting terms as the related nonvested IUs at the time of distribution.

The distribution of Sovos common stock with respect to IUs was calculated based on a multi-step valuation which included a comparison of the fair value of the Company based on the pricing at the Company's IPO to the fair value of the outstanding partnership units of the Ultimate Parent, including the IUs granted under the 2017 Plan. The conversion was based on:

- a ratio that takes into account the number of IUs held,
- the application distribution threshold applicable to the IUs, and
- the value of distributions that the holder would have been entitled to receive had the Ultimate Parent liquidated on the date of such replacement in accordance with the terms of the distribution "waterfall" set forth in the Ultimate Parent partnership agreement.

Restricted Common Stock

In connection with the IPO, a change in the vesting of the existing performance-based IUs and accordingly the related distributed restricted stock resulted in a modification to the grants and required the shares to be revalued as of the IPO date, resulting in a modified grant date fair value of approximately $13.0 million. The fair value of the performance-based restricted stock awards was calculated using a Monte Carlo simulation option pricing model which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate. Specifically, the model revalued the performance units based on the revised vesting condition of the 2.0x multiple of invested capital ("MOIC") restricted stock units achieving the 2.0x MOIC based on a 30-day volume weighted average price with the remainder of the restricted stock units vesting upon the earlier of the Ultimate Parent owning 25% or less of the Company or 30 months post-IPO. On November 3, 2021, the performance condition of the 2.0x MOIC restricted common stock was met and, accordingly, 683,442 shares of restricted stock with a performance-based vesting condition vested.

On November 4, 2021, the Company and the Limited Partnership modified a portion of the existing equity-based compensation awards dated September 22, 2021 among the Company, the Limited Partnership and the holders of such restricted stock. As a result of this modification, a portion of the shares that would have vested based upon a 4.0x MOIC (including any related linear interpolation, the "Original Vesting Criteria") instead vest on the last day of fiscal 2022 or on the last day of fiscal 2023, or upon achievement of the Original Vesting Criteria, if earlier. The fair value of the modified performance-based restricted stock awards was calculated using a Monte Carlo simulation option pricing model which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate, resulting in an incremental modified grant date fair value of approximately $6.1 million.

As of September 24, 2022, 20,264 shares of restricted common stock resulting from the distribution of common stock with respect to unvested time-based IUs vest upon fulfilling time-based service conditions and are scheduled to vest through 2024. As of September 24, 2022, the remaining 2,298,866 shares of restricted common stock resulting from the distribution with respect to unvested performance-based IUs will vest only if certain performance conditions, including exceeding various MOIC levels, are achieved. Shares of restricted common stock that do not vest are not cancelled but instead remain outstanding and are forfeited back to the Ultimate Parent.

During the 13 weeks and 39 weeks ended September 24, 2022, the Company recorded equity-based compensation expense of approximately $0.3 million and $0.9 million, respectively, related to the restricted common stock with time-based service vesting conditions. During the 13 weeks and 39 weeks ended September 25, 2021, the Company recorded equity-based compensation expense of approximately $0.3 million and $1.4 million, respectively, related to the IUs with time-based service vesting conditions.

The Company recognized approximately $1.7 million and $4.9 million of equity-based compensation expense during the 13 weeks and 39 weeks ended September 24, 2022, respectively, related to the performance-based restricted common stock and will recognize the remaining expense for these awards ratably over the applicable 30-month period. Prior to the distribution of common stock with respect to the performance-based IUs, the performance conditions for the performance-based IUs were not deemed probable of occurrence, and therefore, no compensation cost was recorded for such IUs prior to September 23, 2021. In connection with the modification of the 2.0x MOIC performance-based restricted common stock described above, the Company recognized approximately $0.7 million of equity-based compensation expense during each of the 13 weeks and 39 weeks ended September 25, 2021.

The equity-based compensation expense prior to the IPO was considered to be a transaction with the Ultimate Parent and was classified as a component within APIC in the Company's consolidated statements of changes in stockholder's equity.

Post-IPO Equity

2021 Equity Incentive Plan

Effective September 21, 2021, the Company adopted the 2021 Equity Incentive Plan (the "2021 Plan") which reserves 9,739,244 shares of common stock to grant stock options, stock appreciation rights, restricted stock awards, restricted stock units or equity-based awards to eligible employees, consultants and directors.

Restricted Stock Units

In connection with the IPO and under the 2021 Plan, the Company granted 967,158 time-based restricted stock units ("RSUs") to certain employees and independent directors. The RSUs include (i) 759,362 RSUs issued to certain employees with each award vesting 100% on the third anniversary of the grant date, subject in general to the applicable employee's continued service through the vesting date, (ii) 191,130 RSUs issued to certain employees and independent directors with each award vesting in three equal annual installments, subject in general to the employee's or director's continued service through the vesting date, and (iii) 16,666 RSUs issued to certain of our independent directors that vest on the earlier of the first anniversary of the grant date and immediately prior to our first annual meeting of stockholders following the IPO, in each case subject in general to the applicable director's continued service through the vesting date.

During the 39 weeks ended September 24, 2022, the Company granted 708,682 RSUs to certain employees and independent directors. The RSUs include (i) 604,833 RSUs issued to employees with each award vesting in two equal annual installments, (ii) 76,039 RSUs issued to an employee with each award vesting in three equal annual installments, and (iii) 27,810 RSUs issued to independent directors that vest on the earlier of the first anniversary of the grant and immediately prior to our 2023 annual meeting of stockholders, all of which are subject in general to the employee's and independent director's continued service through the vesting date.

Performance-based Restricted Stock Units

In connection with the IPO and under the 2021 Plan, the Company granted 687,690 performance-based restricted stock units ("PSUs) to certain employees with each award vesting subject in general to the achievement of the performance condition and subject in general to the employee's continued service through the vesting date. The fair value of the PSUs was estimated using a Monte Carlo simulation option pricing model, which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

During the 39 weeks ended September 24, 2022, the Company granted 343,800 PSUs to employees with each award vesting subject in general to the achievement of a performance condition that measures the total shareholder return ("TSR") relative to the TSR of the constituents of a custom peer group ("relative TSR"). The number of shares that may be earned ranges from 0% to 200% with straight-line interpolation applied and subject in general to the employee's continued service through the vesting date. The fair value of the PSUs granted during the 39 weeks ended September 24, 2022 was estimated using a Monte Carlo simulation option pricing model, which requires the Company to make estimates and assumptions, such as expected volatility, expected term and expected risk-free interest rate.

The Company recognized approximately $2.6 million and $7.4 million in equity-based compensation expense for the 13 weeks and 39 weeks ended September 24, 2022, respectively, resulting from the issuance of RSUs and PSUs under the 2021 Plan, and expects to record equity-based compensation expense of approximately $28.8 million through the first quarter of 2025. For the 13 weeks and 39 weeks ended September 25, 2021, there was no equity-based expense recognized for grants issued under the 2021 Plan.

As of September 24, 2022, there was an aggregate of 7,366,911 shares of common stock available for future equity awards under the 2021 Plan.

15. Income Taxes

The tax (expense) benefit and the effective tax rate resulting from operations were as follows:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Income (loss) before income taxes	$ 3,964	$ (1,117)	$ (28,659)	$ 13,972
Effective income tax (expense) benefit	$ (2,500)	$ (3,497)	$ 3,895	$ (8,213)
Effective tax rate	63.1 %	(313.1)%	13.6 %	58.8 %

The effective tax rates for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021 differ from the U.S. federal statutory income tax rate of 21% primarily due to changes in earnings, permanent items including nondeductible equity-based compensation and limitation on the deduction of executive compensation for public companies, various discrete items including the impairment of goodwill, debt extinguishment costs and costs incurred in connection with the IPO and secondary offering and state taxes.

16. Related Party Transactions

The Company has two related party leases for a manufacturing facility and land. The facility and land are leased from Morning Fresh Dairy ("Morning Fresh"), a related party entity owned and controlled by a board member and equity holder of the Company. The facility lease and land lease are classified as a finance lease and operating lease, respectively, based on the original lease term and reasonably certain renewal options. As of September 24, 2022, the facility has a lease liability balance of $6.8 million which is primarily recognized as long-term debt in our Condensed Consolidated Balance Sheets. As of September 24, 2022, the land lease has a liability balance of $0.5 million which is primarily recognized as long-term operating lease liabilities in our Condensed Consolidated Balance Sheets.

The facility and land lease contained total payments of approximately $144 thousand and $144 thousand for the 13 weeks ended September 24, 2022 and September 25, 2021, respectively, and $429 thousand and $393 thousand for the 39 weeks ended September 24, 2022 and September 25, 2021, respectively. In addition, $45 thousand and $48 thousand was paid for the 13 weeks ended September 24, 2022 and September 25, 2021, respectively, and $136 thousand and $143 thousand was paid for the 39 weeks ended September 24, 2022 and September 25, 2021, respectively, for a proportionate share of utilities, taxes and insurance.

Morning Fresh regularly purchases finished goods inventory from the Company for sale to its customers. Additionally, Morning Fresh regularly supplies milk used in the Company's manufacturing process.

Sales to and purchases from Morning Fresh were as follows:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Sales	$ 136	$ 122	$ 377	$ 357
Purchases	$ 2,174	$ 1,468	$ 6,440	$ 4,309

Amounts outstanding in respect to Morning Fresh transactions were as follows:

(In thousands)	September 24, 2022	December 25, 2021
Receivables	$ 38	$ 26
Payables	$ 897	$ 354

The Company has a milk supply agreement with Morning Fresh for a base term ending December 31, 2027, with the option available for extension for a total of fifteen additional 2-year periods to December 31, 2057. Four years' advance written notice is required to terminate the agreement. Milk will be priced on a month-to-month basis by USDA Central Federal Order No. 32 for Class II milk, plus surcharges and premiums, provided that the final price of the milk shall be 23.24 cents per hundred weight less than the published Dairy Farmers of America bill for that month. The Company will accept up to 3,650,000 gallons as determined by Morning Fresh in 2020, and for each year of the term thereafter. As of September 24, 2022, the Company has future commitments to purchase approximately $40.0 million of milk from Morning Fresh, approximated at current market price. In addition, the Company has agreed to pay an additional $33 thousand monthly through December 31, 2027 to cover the landowner's incremental costs relating to capital improvements necessary to support increased milk production required by the Company over the term of this agreement. If the agreement is terminated before December 1, 2027, the Company will be required to pay an early termination penalty, which declines from $3.0 million at the inception of the agreement to $0 over the ten-year term, based on an amortization table outlined in the agreement.

In January 2019, the Company entered into an agreement with a stockholder, to sell and issue 5,217 Class A units in exchange for a $6 million stockholder note receivable, which was recorded within stockholders' equity. In accordance with the agreement, interest on the note accrued and compounded quarterly at a rate equal to the long-term applicable federal rate per annum on date of issuance on the unpaid principal amount of the note. The federal rate used on the date of issuance was the January 2019 long-term applicable federal rate for purposes of IRC 1274(d), which was 3.12%. On February 26, 2021, the stockholder note receivable plus accrued and unpaid interest was paid in full in the amount of $6.4 million.

Advent International Corporation ("Advent") is a private equity firm which has invested funds in our common stock. Although no individual fund owns a controlling interest in us, together the funds represent our current majority owners.

Advent and its affiliates have ownership interests in a broad range of companies. We have entered and may in the future enter into commercial transactions in the ordinary course of our business with some of these companies, including the sale of goods and services and the purchase of goods and services.

The Company pays legal expenses and tax preparation fees on behalf of the Limited Partnership and carries balances within other long-term assets that reflects the amount due from the Limited Partnership. As of September 24, 2022 and December 25, 2021, the receivable balance was $0.1 million and $0.4 million, respectively.

17. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) for the period by the weighted-average number of common shares outstanding for the period without consideration of potential common shares. Diluted EPS is calculated using the weighted average number of common shares outstanding including the dilutive effect of equity awards as determined under the treasury stock method. In periods when the Company has a net loss, equity awards are excluded from the calculation of diluted EPS as their inclusion would have an anti-dilutive effect. The following table presents the computation of EPS for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021.

	13 Weeks Ended		39 Weeks Ended	
(In thousands, except share and per share amounts)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income (loss)	$ 1,464	$ (4,614)	$ (24,764)	$ 5,759
Weighted average basic common shares outstanding	100,913,121	74,058,447	100,901,161	74,058,447
Effect of dilutive securities:				
Restricted stock units	476,939	—	—	6
Performance stock units	223,868	—	—	—
Total	700,807	—	—	6
Weighted average and potential dilutive common shares outstanding	101,613,928	74,058,447	100,901,161	74,058,453
Earnings (loss) per share				
Basic	$ 0.01	$ (0.06)	$ (0.25)	$ 0.08
Diluted	$ 0.01	$ (0.06)	$ (0.25)	$ 0.08

The following table presents the common stock shares equivalent excluded from the calculation of diluted earnings per share for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021, as they would have had an anti-dilutive effect:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Restricted stock units	—	61	186,041	—
Performance stock units	—	—	139,061	—
Total anti-dilutive shares	—	61	325,102	—

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Form 10-Q") contains forward-looking statements. Forward-looking statements can be identified by words, such as "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects" and similar references to future periods, or by the inclusion of forecasts or projections. Examples of forward-looking statements include, but are not limited to, statements we make regarding the outlook for our future business and financial performance, such as those contained in this section.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- inflation, including our vulnerability to decreases in the supply of and increases in the price of raw materials, packaging and fuel, and labor, manufacturing, distribution and other costs, and our inability to offset increasing costs through cost savings initiatives or pricing;
- adverse consequences of the actions of the major retailers, wholesalers, distributors and mass merchants on which we rely, including if they give higher priority to other brands or products, take steps to maintain or improve their margins by, among other things, raising the on-shelf prices of our products or imposing surcharges on us, or if they perform poorly or declare bankruptcy;
- supply disruptions, including increased costs and potential adverse impacts on distribution and consumption;
- geopolitical tensions, including relating to Ukraine;
- our dependence on third-party distributors and third-party co-packers, including one co-packer for the substantial majority of our *Rao's Homemade* sauce products;
- competition in the packaged food industry and our product categories;
- consolidation within the retail environment may allow our customers to demand lower pricing, increased promotional programs and increased deductions and allowances, among other items;
- our inability to accurately forecast pricing elasticities and the resulting impact on volume growth and/or distribution gains;
- the COVID-19 pandemic and associated effects;
- our inability to maintain our workforce;
- our inability to identify, consummate or integrate new acquisitions or realize the projected benefits of acquisitions;
- our inability to effectively manage our growth;
- our inability to successfully introduce new products or failure of recently launched products to meet expectations or remain on-shelf;
- our inability to expand household penetration and successfully market our products;
- erosion of the reputation of one or more of our brands;
- our vulnerability to the impact of severe weather conditions, natural disasters and other natural events such as herd, flock and crop diseases on our manufacturing facilities, co-packers or raw material suppliers;
- failure by us or third-party co-packers or suppliers of raw materials to comply with food safety, environmental or other laws or regulations, or new laws or regulations;
- failure to protect, or litigation involving, our tradenames or trademarks and other rights;
- fluctuations in currency exchange rates could adversely affect our results of operations and cash flows;
- our ability to effectively manage interest rate risk, including through the use of hedges and other strategies or financial products;
- a change in assumptions used to value our goodwill or our intangible assets, or the impairment of our goodwill or intangible assets;
- our level of indebtedness under our First Lien Credit Agreement (as defined herein), which as of September 24, 2022 was $480.8 million, and our duty to comply with covenants under our First Lien Credit Agreement; and

- the interests of our majority stockholder may differ from those of public stockholders.

See Part II. Item IA. “Risk Factors” for a further description of these and other factors. For the reasons described above, we caution you against relying on any forward-looking statements, which should also be read in conjunction with the other cautionary statements that are included elsewhere in this report. Any forward-looking statement made by us in this report speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

Unless the context otherwise requires, “we,” “us,” “our” and the “Company” refer to Sovos Brands, Inc. and its subsidiaries. The Company’s fiscal year ends on the last Saturday in December of each year and as a result, a 53rd week is added approximately every sixth year. Our fiscal years ended December 25, 2021 (“fiscal 2021”) and December 26, 2020 (“fiscal 2020”) each had 52 weeks. Our fiscal year ending December 31, 2022 (“fiscal 2022”) has 53 weeks. Our fiscal quarters are comprised of 13 weeks each, ending on the 13th Saturday of each quarter, except for the 53-week fiscal years for which the fourth quarter will be comprised of 14 weeks, ending on the 14th Saturday of such fourth quarter. The information for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021 are derived from the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this report.

Overview

We are one of the fastest growing food companies of scale in the United States over the past two years, focused on acquiring and building disruptive growth brands that bring today’s consumers great tasting food that fits the way they live. Our brands, *Rao’s*, *Michael Angelo’s*, *noosa* and *Birch Benders* are built with authenticity at their core, providing consumers food experiences that are genuine, delicious and unforgettable. Our premium products are made with simple, high-quality ingredients. We are focused on continuing to build an organization with the capabilities to acquire, integrate, and grow brands. We strive to empower our teams to lead with courage and tenacity, with the goal of providing them with the confidence and agility to connect with our consumers and retail partners to drive unparalleled growth. We believe our focus on “one-of-a-kind” brands and products that people love and our passion for our people makes Sovos Brands a “one-of-a-kind” company and enables us to deliver on our objective of creating a growing and sustainable food enterprise yielding financial growth ahead of industry peers.

On September 22, 2021, we priced our initial public offering (the “IPO”) of 23,334,000 shares of our common stock, $0.001 par value per share, which excluded the underwriters’ option to purchase an additional 3,500,100 shares of common stock, at an offering price of $12.00 per share. The IPO closed on September 27, 2021 and resulted in net proceeds of approximately $263.2 million, after deducting underwriting discounts and commissions. Subsequent to the IPO, the underwriters exercised their options to purchase an additional 3,500,100 shares of common stock. We closed the sale of such additional shares on October 5, 2021, resulting in net proceeds of approximately $39.5 million, after deducting underwriting discounts and commissions.

On August 10, 2022, we completed a secondary offering, in which certain of our stockholders (the “Selling Stockholders”) sold 8,500,000 shares of common stock in an underwritten public offering at an offering price of $14.00 per share, with all proceeds going to the Selling Stockholders. Subsequent to the secondary offering, the underwriters exercised their option to purchase an additional 1,275,000 shares of common stock, and the sale of such additional shares closed on August 22, 2022, with all proceeds going to the Selling Stockholders.

Emerging Growth Status

As a company with less than $1.235 billion in gross revenue during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). An emerging growth company may take advantage of specified reduced reporting and other regulatory requirements for up to five years that are otherwise applicable generally to public companies. These provisions include, among other matters:

- exemption from the auditor attestation requirement on the effectiveness of our system of internal control over financial reporting pursuant to the Sarbanes-Oxley Act;
- exemption from the adoption of new or revised financial accounting standards until they would apply to private companies;
- exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report in which the auditor would be required to provide additional information about the audit and the financial statements of the issuer;
- an exemption from the requirement to seek non-binding advisory votes on executive compensation and golden parachute arrangements; and
- reduced disclosure about executive compensation arrangements.

We will remain an emerging growth company until the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement, which was September 22, 2021, unless, prior to that time, (i) we have more than $1.235 billion in annual gross revenue, (ii) have a market value for our common stock held by non-affiliates of more than $700 million as of the last day of our second fiscal quarter of the fiscal year and a determination is made that we are deemed to be a "large accelerated filer," as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or (iii) issue more than $1.0 billion of non-convertible debt over a three-year period, whether or not issued in a registered offering. We have availed ourselves of the reduced reporting obligations with respect to audited financial statements and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" and executive compensation disclosure and expect to continue to avail ourselves of the reduced reporting obligations available to emerging growth companies in future filings.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. An emerging growth company can, therefore, delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

Inflationary Environment and Impact of COVID-19

In the 39 weeks ended September 24, 2022, we experienced increased cost of sales, as a percentage of net sales, driven by increased costs for raw materials, packaging, logistics, labor and energy. Since the price increase announcements made in late fiscal 2021, we have continued to experience increased inflationary pressure and volatility, and accordingly, we have announced additional price increases during the 39 weeks ended September 24, 2022. In addition, to assist in partially mitigating inflation, we continue to target reduced trade spending, seeking to remove our least efficient promotions and drive net price increases, and execute various productivity and cost savings initiatives within our manufacturing and logistics network.

We expect year-over-year inflation to be relatively consistent throughout the full fiscal year 2022. As a result, we have and will continue to closely monitor our pricing and may announce additional price increases in fiscal 2022. Consistent with the consumer-packaged food industry, we are seeing cost increases in several raw materials and packaging including, but not limited to, milk, animal proteins, fruit, glass, resin and cardboard. Transportation challenges continue to be acute, particularly due to logistical issues at major ports, intermodal and trucking delays and capacity constraints for ocean freight cargo. These challenges have resulted in long lead times and higher logistics costs. Labor-related disruptions, including labor shortages and absenteeism, have been challenges within our operations and among our third-party logistics providers and other business partners, sometimes leading to elevated downtime in our plants and potential late delivery charges from our retail partners.

We expect to develop additional initiatives to partially mitigate inflationary pressure on top of the various productivity initiatives implemented and in progress. Some of our ongoing supply chain initiatives today include: the further automation of our own production facilities, optimization of our co-manufacturing network, product and packaging value engineering and competitive procurement actions. Collectively, we expect the increases in costs to be partially mitigated in fiscal 2022 by the pricing actions, productivity initiatives and trade efficiencies.

We continue to actively monitor the impact of COVID-19 on all aspects of our business. We cannot predict the degree to, or the period over, which we will be affected by the COVID-19 pandemic and any resulting macroeconomic trends or governmental and other measures or changes. The global impact of the COVID-19 pandemic continues to evolve, and we continue to closely monitor the impact of the COVID-19 pandemic on our business and remain focused on prioritizing the health of our employees while seeking to maintain the continuity of our product supply throughout the supply chain. We benefited from changes in consumer shopping and consumption patterns during the COVID-19 pandemic, including increases of in-home consumption and trial of our products, resulting in increased household penetration of our brands. As a result of the strong demand for our products and intermittent supply chain disruptions, we continue to face challenges to meet our expected customer service levels in fiscal 2022.

Key Performance Indicators

We regularly review a number of metrics to evaluate our business, measure our progress and make strategic decisions. EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income, and diluted earnings per share from adjusted net income (the “non-GAAP financial measures”), which are non-GAAP financial measures, are currently utilized by management and may be used by our competitors to assess performance. We believe these measures assist our investors in gaining a meaningful understanding of our performance. Because not all companies use identical calculations, our presentation of these measures may not be comparable to other similarly titled measures of other companies. See “—Non-GAAP Financial Measures” for definitions and a reconciliation of net income (loss) to EBITDA and Adjusted EBITDA, gross profit to adjusted gross profit, total operating expenses to adjusted operating expenses, operating income (loss) to adjusted operating income, reported income tax (expense) benefit to adjusted income tax expense, reported effective tax rate to adjusted effective tax rate, net loss to adjusted net income and diluted earnings (loss) per share to diluted earnings per share from adjusted net income.

Results of Operations

The discussion that follows includes a comparison of our results of operations and liquidity and capital resources for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021. We have also included certain non-GAAP financial measures for the 13 weeks and 39 weeks ended September 25, 2021 that were not included in our Prospectus filed with the SEC on September 24, 2021 in order to conform with current period presentation.

Comparison of Unaudited Results for the 13 weeks ended September 24, 2022 and September 25, 2021

The following unaudited table presents, for the periods indicated, selected information from our Condensed Consolidated Statements of Operations, including information presented as a percentage of net sales:

(In thousands, except share and per share data)	13 Weeks Ended		13 Weeks Ended		Increase / (Decrease)	
	September 24, 2022	**% of Sales**	**September 25, 2021**	**% of Sales**	**$ Change**	**% Change**
Net sales	$ 208,907	100.0 %	$ 178,733	100.0 %	$ 30,174	16.9 %
Cost of sales	147,090	70.4 %	128,878	72.1 %	18,212	14.1 %
Gross profit	**61,817**	**29.6 %**	**49,855**	**27.9 %**	**11,962**	**24.0 %**
Operating expenses:						
Selling, general and administrative	43,965	21.0 %	31,189	17.5 %	12,776	41.0 %
Depreciation and amortization	7,209	3.5 %	7,236	4.0 %	(27)	(0.4)%
Total operating expenses	**51,174**	**24.5 %**	**38,425**	**21.5 %**	**12,749**	**33.2 %**
Operating income	10,643	5.1 %	11,430	6.4 %	(787)	(6.9)%
Interest expense, net	6,679	3.2 %	12,547	7.0 %	(5,868)	(46.8)%
Income (loss) before income taxes	**3,964**	**1.9 %**	**(1,117)**	**(0.6)%**	**5,081**	**(454.9)%**
Income tax expense	(2,500)	(1.2)%	(3,497)	(2.0)%	997	(28.5)%
Net income (loss)	**$ 1,464**	**0.7 %**	**$ (4,614)**	**(2.6)%**	**$ 6,078**	**(131.7)%**
Diluted earnings (loss) per share	$ 0.01		$ (0.06)		$ 0.07	(116.7)%
Diluted weighted average shares outstanding	101,613,927		74,058,447		27,555,480	37.2 %
Other financial data: [1]						
EBITDA	$ 20,447	9.8 %	$ 20,924	11.7 %	$ (477)	(2.3)%
Adjusted EBITDA	$ 29,519	14.1 %	$ 25,775	14.4 %	$ 3,744	14.5 %
EBITDA margin	9.8 %		11.7 %		%	(16.2)%
Adjusted EBITDA margin	14.1 %		14.4 %		%	(2.1)%
Adjusted gross profit	$ 62,314	29.8 %	$ 50,153	28.1 %	$ 12,161	24.2 %
Adjusted operating expenses[2]	$ 35,789	17.1 %	$ 27,061	15.1 %	$ 8,728	32.3 %
Adjusted operating income	$ 26,525	12.7 %	$ 23,092	12.9 %	$ 3,433	14.9 %
Adjusted income tax expense	$ (5,547)	(2.7)%	$ (3,403)	(1.9)%	$ (2,144)	63.0 %
Adjusted effective tax rate	25.4 %		32.2 %		%	(20.8)%
Adjusted net income	$ 14,299	6.8 %	$ 7,142	4.0 %	$ 7,157	100.2 %
Diluted earnings per share from adjusted net income	$ 0.14		$ 0.10		$ 0.04	40.0 %

(1) Other financial data includes non-GAAP financial metrics. See "—Non-GAAP Financial Measures" for definitions and a reconciliation of our net income (loss) to EBITDA and Adjusted EBITDA, gross profit to adjusted gross profit, total operating expenses to adjusted operating expenses, operating income to adjusted operating income, reported income tax expense to adjusted income tax expense, reported effective tax rate to adjusted effective tax rate, net loss to adjusted net income and diluted earnings (loss) per share to diluted earnings per share from adjusted net income.

(2) The adjusted operating expenses for the 13 weeks ended September 25, 2021 include a non-GAAP reconciling item of $6.8 million for acquisition amortization, previously only reported as a non-GAAP reconciling item to adjusted net income.

Net Sales

Net sales consist primarily of product sales to our customers less cost of trade promotions such as consumer incentives, coupon redemptions, other in-store merchandising activities and allowances for unsalable product.

Net sales of $208.9 million represented an increase of $30.2 million, or 16.9%, for the 13 weeks ended September 24, 2022, as compared to the 13 weeks ended September 25, 2021. The increase was primarily due to higher price/mix of 14.4% with volumes up 2.5% across the portfolio. Net sales growth from a brand perspective was led by *Rao's* up 33.7%, primarily as a result of higher sauce sales in addition to growth across the frozen, soup and pasta categories. noosa grew 2.4% while *Michael Angelo's* declined 3.7%, with each brand impacted by lapping a single customer promotional event in the year ago period that was not repeated. The 29.4% decline in net sales for *Birch Benders* was primarily the result of the continued softening of key sub-segments of the pancake and waffle mix category.

Cost of Sales

Cost of sales represents costs directly related to the manufacturing and distribution of products. Such costs include raw materials, labor and overhead required to produce the products, co-manufacturing, packaging, warehousing, shipping and handling, third-party distribution, and depreciation of equipment and leasehold improvements. We manufacture our products in our Austin, Texas and Bellvue, Colorado manufacturing locations. We also use third-party contract manufacturers in the United States, Canada and the European Union. We procure selected elements of raw materials and packaging and receive finished goods. We incur tolling charges related to our contract manufacturing arrangements.

Cost of sales of $147.1 million represented an increase of $18.2 million, or 14.1%, for the 13 weeks ended September 24, 2022 as compared to the 13 weeks ended September 25, 2021. The increase was primarily attributable to heightened inflationary pressures, including increased raw materials, packaging, logistics, labor and energy costs compared to the 13 weeks ended September 25, 2021. In particular, we realized higher costs for dairy, proteins, glass and transportation expenses. Consistent with others in our industry, we have also continued to experience challenges in our supply chain, including the tight supply of raw materials, packaging and distribution capacity, as well as the pass through of certain labor and other costs from our third-party manufacturing partners. Volume growth discussed above also partially drove higher cost of sales. In addition, we recognized adjustments of $0.5 million related to raw material write-downs associated with a *Birch Benders* strategic initiative to move co-manufacturing production from an international supplier to a domestic supplier. Productivity savings, primarily within our manufacturing network, modestly offset the year-over-year cost of sales increases.

Cost of sales as a percentage of net sales decreased from 72.1% for the 13 weeks ended September 25, 2021, to 70.4% for the 13 weeks ended September 24, 2022. The decrease in cost of sales as a percentage of net sales was driven by the contribution to net sales from higher pricing and mix, as well as the benefit of lapping higher shipping and port congestion costs in the year ago period, that were partially offset by higher inflationary costs as described above.

Gross Profit

Gross profit of $61.8 million represented an increase of $12.0 million, or 24.0%, for the 13 weeks ended September 24, 2022, as compared to the 13 weeks ended September 25, 2021. Gross profit as a percentage of net sales, or gross margin, increased from 27.9% for the 13 weeks ended September 25, 2021 to 29.6% for the 13 weeks ended September 24, 2022, and was a result of the items discussed above.

Operating Expenses

Operating expenses of $51.2 million represented an increase of $12.7 million, or 33.2%, for the 13 weeks ended September 24, 2022 compared to the 13 weeks ended September 25, 2021 due to the following:

- *Selling, General and Administrative expenses*: Selling, general and administrative expenses include sales and marketing costs and general and administrative expenses, including expenses for employee salaries and benefits. Selling and marketing costs also include advertising and marketing costs, broker commissions and research and development expenses. General and administrative expenses are also comprised of expenses associated with our corporate and administrative functions that support our business, including equity-based compensation expense, professional services, including legal, audit and tax compliance fees and third-party consultancy fees, insurance and other corporate expenses.

  Selling, general and administrative expenses of $44.0 million represented an increase of $12.8 million, or 41.0%, for the 13 weeks ended September 24, 2022 compared to the 13 weeks ended September 25, 2021. The increase was primarily driven by increased employee compensation related expenses of $3.9 million, primarily due to increased headcount, higher equity-based compensation expense of $3.6 million related to the equity modifications in connection with the IPO and new equity grants described below, increased spending to support marketing, research and development and selling expenses, including professional fees, of $2.9 million, unrealized loss on foreign currency contracts of $2.8 million, increased public company costs of $1.5 million, non-recurring costs of $0.9 million and $0.5 million increase in other general and administrative expenses. The increase in non-recurring costs included $0.8 million of costs related to capital markets-related professional fees for our secondary offering completed during the 13 weeks ended September 24, 2022. These increases were partially offset by lower transaction and integration costs and IPO readiness costs of $3.3 million.

In connection with the IPO, we modified our existing equity-based compensation awards which resulted in a non-cash expense of approximately $0.7 million for each of the 13 weeks ended September 24, 2022 and September 25, 2021, and will result in a total non-cash expense of approximately $5.1 million through the first quarter of 2024. In November 2021, we further modified a portion of our existing equity-based compensation awards which resulted in a non-cash expense of approximately $0.9 million for the 13 weeks ended September 24, 2022 and will result in an incremental non-cash expense of approximately $4.3 million through the fourth quarter of our fiscal year ending December 30, 2023. In addition, for the 13 weeks ended September 24, 2022, we recorded a non-cash expense of $2.7 million resulting from the issuance of grants under the 2021 Plan. For the 13 weeks ended September 25, 2021, there was no expense recorded for the issuance of grants under the 2021 Plan.

- *Depreciation and Amortization expenses:* Depreciation and amortization expense consists of the depreciation of non-production property and equipment, including leasehold improvements, equipment, capitalized leases and the amortization of customer relationships and finite-lived trademarks.

  Depreciation and amortization expenses of $7.2 million represented a decrease of $27 thousand, or 0.4%, for the 13 weeks ended September 24, 2022, compared to the 13 weeks ended September 25, 2021.

Interest Expense, Net

Interest expense, net primarily consists of interest and fees on our Credit Facilities (as defined herein), our Senior Credit Facilities and amortization of deferred financing costs. We have incurred, and may incur additional, indebtedness to fund acquisitions, and we may choose to prepay on our Credit Facilities to reduce indebtedness.

Interest expense, net of $6.7 million represented a decrease of $5.9 million, or 46.8%, for the 13 weeks ended September 24, 2022 compared to the 13 weeks ended September 25, 2021. The decrease is primarily due to lower average outstanding debt compared to the prior period as a result of the debt reduction from IPO proceeds. In addition, there was a decrease in variable interest rates for the 13 weeks ended September 24, 2022 compared to the 13 weeks ended September 25, 2021. The decrease in variable interest rates is primarily due to the full payoff of the outstanding principal balance on the Initial Second Lien Loans of $200.0 million in September 2021, which had an effective interest rate of 8.75%.

Income Tax Expense

Income tax expense consists of federal and various state taxes. Income tax expense of $2.5 million represented a decrease of $1.0 million for the 13 weeks ended September 24, 2022 compared to the 13 weeks ended September 25, 2021. The decrease was primarily driven by lower taxable income (loss) before income tax due to net changes in permanent and discrete items. These permanent and discrete items are related to debt extinguishment costs, equity-based compensation, costs associated with the IPO and secondary offering and executive compensation limitation.

Net Income (Loss)

Net income for the 13 weeks ended September 24, 2022 was $1.5 million compared to net loss of $4.6 million for the 13 weeks ended September 25, 2021. The decrease in net loss was attributable to the items described above.

Other Financial Data

See “—Non-GAAP Financial Measures” for discussions of:

- EBITDA and Adjusted EBITDA and a reconciliation of our net income (loss) to EBITDA and Adjusted EBITDA;
- adjusted gross profit and a reconciliation of our gross profit to adjusted gross profit;
- adjusted operating expenses and a reconciliation of our total operating expenses to adjusted operating expenses;
- adjusted operating income and a reconciliation of our total operating income to adjusted operating income;
- adjusted income tax expense and a reconciliation of our reported income tax expense to adjusted income tax expense;
- adjusted effective tax rate and a reconciliation of reported effective tax rates to adjusted effective tax rate;
- adjusted net income and a reconciliation of our net income (loss) to adjusted net income and;
- diluted earnings per share from adjusted net income and a reconciliation of our net income (loss) and the associated diluted loss per share to adjusted net income and the associated diluted earnings per share.

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Comparison of Unaudited Results for the 39 weeks ended September 24, 2022 and September 25, 2021

The following unaudited table presents, for the periods indicated, selected information from our Condensed Consolidated Statements of Operations, including information presented as a percentage of net sales:

(In thousands)	39 Weeks Ended September 24, 2022	% of Sales	39 Weeks Ended September 25, 2021	% of Sales	Increase / (Decrease) $ Change	% Change
Net sales	$ 616,273	100.0 %	$ 529,942	100.0 %	$ 86,331	16.3 %
Cost of sales	445,525	72.3 %	368,642	69.6 %	76,883	20.9 %
Gross profit	**170,748**	**27.7 %**	**161,300**	**30.4 %**	**9,448**	**5.9 %**
Operating expenses:						
Selling, general and administrative	117,329	19.0 %	91,367	17.2 %	25,962	28.4 %
Depreciation and amortization	21,612	3.5 %	21,631	4.1 %	(19)	(0.1)%
Impairment of goodwill	42,052	6.8 %	—	— %	42,052	NM %
Loss on extinguishment of debt	—	— %	9,717	1.8 %	(9,717)	(100.0)%
Total operating expenses	**180,993**	**29.4 %**	**122,715**	**23.2 %**	**58,278**	**47.5 %**
Operating income (loss)	(10,245)	(1.7)%	38,585	7.3 %	(48,830)	(126.6)%
Interest expense, net	18,414	3.0 %	24,613	4.6 %	(6,199)	(25.2)%
Income (loss) before income taxes	**(28,659)**	**(4.7)%**	**13,972**	**2.6 %**	**(42,631)**	**(305.1)%**
Income tax (expense) benefit	3,895	0.6 %	(8,213)	(1.5)%	12,108	(147.4)%
Net income (loss)	**$ (24,764)**	**(4.0)%**	**$ 5,759**	**1.1 %**	**$ (30,523)**	**(530.0)%**
Diluted earnings (loss) per share	$ (0.25)		$ 0.08		$ (0.33)	(412.5)%
Diluted weighted average shares outstanding	100,901,161		74,058,453		26,842,708	36.2 %
Other financial data: [1]						
EBITDA	$ 18,939	3.1 %	$ 66,887	12.6 %	$ (47,948)	(71.7)%
Adjusted EBITDA	$ 82,831	13.4 %	$ 88,654	16.7 %	$ (5,823)	(6.6)%
EBITDA margin	3.1 %		12.6 %			(75.4)%
Adjusted EBITDA margin	13.4 %		16.7 %			(19.8)%
Adjusted gross profit	$ 172,039	27.9 %	$ 161,598	30.5 %	$ 10,441	6.5 %
Adjusted operating expenses[2]	$ 97,963	15.9 %	$ 80,816	15.2 %	$ 17,147	21.2 %
Adjusted operating income	$ 74,076	12.0 %	$ 80,782	15.2 %	$ (6,706)	(8.3)%
Adjusted income tax expense	$ (14,879)	(2.4)%	$ (14,902)	(2.8)%	$ 23	(0.2)%
Adjusted effective tax rate	25.8 %		26.6 %			(3.0)%
Adjusted net income	$ 40,783	6.6 %	$ 41,267	7.8 %	$ (484)	(1.2)%
Diluted earnings per share from adjusted net income	$ 0.40		$ 0.56		$ (0.16)	(28.6)%

NM – Not meaningful.

(1) Other financial data includes non-GAAP financial metrics. See "—Non-GAAP Financial Measures" for definitions and a reconciliation of our net income (loss) to EBITDA and Adjusted EBITDA, gross profit to adjusted gross profit, total operating expenses to adjusted operating expenses, operating income (loss) to adjusted operating income, reported income tax (expense) benefit to adjusted income tax expense, reported effective tax rate to adjusted effective tax rate, net income (loss) to adjusted net income and diluted earnings (loss) per share to diluted earnings per share from adjusted net income.

(2) The adjusted operating expenses for the 39 weeks ended September 25, 2021 include a non-GAAP reconciling item of $20.4 million for acquisition amortization, previously only reported as a non-GAAP reconciling item to adjusted net income.

Net Sales

Net sales consist primarily of product sales to our customers less cost of trade promotions such as consumer incentives, coupon redemptions, other in-store merchandising activities and allowances for unsalable product.

Net sales of $616.3 million represented an increase of $86.3 million, or 16.3%, for the 39 weeks ended September 24, 2022, as compared to the 39 weeks ended September 25, 2021. The increase was primarily due to volume growth of 9.0% and price/mix of 7.3%. Net Sales growth from a brand perspective was led by *Rao's* up 31.0% during the first 39 weeks of the fiscal year, primarily as a result of higher sauce sales, in addition to growth across the frozen, soup and pasta categories. *noosa* grew 6.3%, driven by the increase in sales of spoonable yogurt, as well as shipments to support the initial launch of our new frozen gelato offerings while *Michael Angelo's* grew 2.6%. The 34.1% decline in net sales for *Birch Benders* was driven by the lapping of a key promotional event from the prior year that we did not repeat in the current year, as well as the continued softening of key sub-segments of the pancake and waffle mix category.

Cost of Sales

Cost of sales represents costs directly related to the manufacturing and distribution of products. Such costs include raw materials, labor and overhead required to produce the products, co-manufacturing, packaging, warehousing, shipping and handling, third-party distribution, and depreciation of equipment and leasehold improvements. We manufacture our products in our Austin, Texas and Bellvue, Colorado manufacturing locations. We also use third-party contract manufacturers in the United States, Canada and the European Union. We procure selected elements of raw materials and packaging and receive finished goods. We incur tolling charges related to our contract manufacturing arrangements.

Cost of sales of $445.5 million represented an increase of $76.9 million, or 20.9%, for the 39 weeks ended September 24, 2022 as compared to the 39 weeks ended September 25, 2021. The increase was primarily attributable to heightened inflationary pressures, including increased raw materials, packaging, logistics, labor and energy costs compared to the 39 weeks ended September 25, 2021. Consistent with others in our industry, we have faced challenges with our supply chain, including the tight supply of raw materials, packaging and distribution capacity, as well as intermittent outages within our network and that of our third-party manufacturing partners. Pressures as a result of the Omicron and other variants of COVID-19, geopolitical tensions, Avian flu and natural disasters have also caused disruptions to ingredient and supply chain availability, as well as incremental costs. Volume growth discussed above also partially drove higher cost of sales. In addition, we recognized adjustments of $1.3 million related to packaging and raw material write-downs associated with a *Birch Benders* strategic initiative to move co-manufacturing production from an international supplier to a domestic supplier. Productivity savings, primarily within our manufacturing network, modestly offset the year-over-year cost of sales increases.

Cost of sales as a percentage of net sales increased from 69.6% for the 39 weeks ended September 25, 2021, to 72.3% for the 39 weeks ended September 24, 2022. The increase in cost of sales as a percentage of net sales was driven by higher inflationary costs as described above, partially offset by the benefit of pricing increases and mix.

Gross Profit

Gross profit of $170.7 million represented a decrease of $9.4 million, or 5.9%, for the 39 weeks ended September 24, 2022, as compared to the 39 weeks ended September 25, 2021. Gross profit as a percentage of net sales, or gross margin, decreased from 30.4% for the 39 weeks ended September 25, 2021 to 27.7% for the 39 weeks ended September 24, 2022, and was a result of the items discussed above.

Operating Expenses

Operating expenses of $181.0 million represented an increase of $58.3 million, or 47.5%, for the 39 weeks ended September 24, 2022 compared to the 39 weeks ended September 25, 2021 due to the following:

- *Selling, General and Administrative expenses*: Selling, general and administrative expenses include sales and marketing costs and general and administrative expenses, including expenses for employee salaries and benefits. Selling and marketing costs also include advertising and marketing costs, broker commissions and research and development expenses. General and administrative expenses are also comprised of expenses associated with our corporate and administrative functions that support our business, including equity-based compensation expense, professional services, including legal, audit and tax compliance fees and third-party consultancy fees, insurance and other corporate expenses.

Selling, general and administrative expenses of $117.3 million represented an increase of $26.0 million, or 28.4%, for the 39 weeks ended September 24, 2022 compared to the 39 weeks ended September 25, 2021. The increase was primarily driven by higher equity-based compensation expense of $11.2 million related to the equity modifications in connection with the IPO and new equity grants described below, increased employee compensation related expenses of $5.4 million, primarily due to increased headcount, higher marketing, research and development and selling expenses, including professional fees, of $5.3 million, increased public company costs of $4.5 million, unrealized loss on foreign currency contracts of $3.3 million, non-recurring costs of $2.8 million and $1.9 million increase in other general and administrative expenses. The increased non-recurring costs included $2.0 million of costs related to capital markets-related professional fees for our secondary offering completed during the 39 weeks ended September 24, 2022. These increases were partially offset by lower transaction and integration costs and IPO readiness costs of $8.4 million.

In connection with the IPO, we modified our existing equity-based compensation awards which resulted in a non-cash expense of approximately $2.2 million and $0.7 million for the 39 weeks ended September 24, 2022 and September 25, 2021, respectively, and will result in a total non-cash expense of approximately $5.1 million through the first quarter of 2024. In November 2021, we further modified a portion of our existing equity-based compensation awards which resulted in a non-cash expense of approximately $2.7 million for the 39 weeks ended September 24, 2022 and will result in an incremental non-cash expense of approximately $4.3 million through the fourth quarter of our fiscal year ending December 30, 2023. In addition, for the 39 weeks ended September 24, 2022, we recorded a non-cash expense of $7.4 million resulting from the issuance of grants under the 2021 Plan. For the 39 weeks ended September 25, 2021, there was no expense recorded for the issuance of grants under the 2021 Plan.

- *Depreciation and Amortization expenses:* Depreciation and amortization expense consists of the depreciation of non-production property and equipment, including leasehold improvements, equipment, capitalized leases and the amortization of customer relationships and finite-lived trademarks.

Depreciation and amortization expenses of $21.6 million represented a decrease of $19 thousand, or 0.1%, for the 39 weeks ended September 24, 2022, compared to the 39 weeks ended September 25, 2021.

- *Impairment of Goodwill:* We test our goodwill for impairment at least annually, or when circumstances indicate that the carrying amount of the asset may not be recoverable and record any related impairment loss as an expense. For the 39 weeks ended September 24, 2022, we recognized an impairment charge of $42.1 million in connection with the impairment of *Birch Benders* goodwill in June 2022 due to the underperformance of the brand. No impairment changes were recorded for the 39 weeks ended September 25, 2021.

- *Loss on Extinguishment of Debt:* There was no loss on extinguishment of debt for the 39 weeks end September 24, 2022. Loss on extinguishment of debt of $9.7 million for the 39 weeks ended September 25, 2021 resulted from the extinguishment of the loans associated with our Senior Credit Facilities in June 2021.

Interest Expense, Net

Interest expense, net primarily consists of interest and fees on our Credit Facilities (as defined herein), our Senior Credit Facilities and amortization of deferred financing costs. We have incurred, and may incur additional, indebtedness to fund acquisitions, and we may choose to prepay on our Credit Facilities to reduce indebtedness.

Interest expense, net of $18.4 million represented a decrease of $6.2 million, or 25.2%, for the 39 weeks ended September 24, 2022 compared to the 39 weeks ended September 25, 2021. The decrease is primarily due to lower average outstanding debt compared to the prior period as a result of the debt reduction from IPO proceeds. In addition, there was a decrease in variable interest rates for the 39 weeks ended September 24, 2022 compared to the 39 weeks ended September 25, 2021. The decrease in variable interest rates is primarily due to the full payoff of the outstanding principal balance on the Initial Second Lien Loans of $200.0 million in September 2021 which had an effective interest rate of 8.75%.

Income Tax (Expense) Benefit

Income tax (expense) benefit consists of federal and various state taxes. Income tax benefit of $3.9 million represented a decrease of $12.1 million for the 39 weeks ended September 24, 2022 compared to the 39 weeks ended September 25, 2021. The decrease was primarily due to the lower taxable income (loss) before income tax due to net changes in permanent and discrete items. These permanent and discrete items are related to the Birch Benders goodwill impairment in the 13 weeks ended June 25, 2022, debt extinguishment costs in the 13 weeks ended June 26, 2021, equity-based compensation, costs associated with the IPO and secondary offering and executive compensation limitation.

Net Income (Loss)

Net loss for the 39 weeks ended September 24, 2022 was $24.8 million compared to net income of $5.8 million for the 39 weeks ended September 25, 2021. The decrease in net income was attributable to the items described above.

Other Financial Data

See "—Non-GAAP Financial Measures" for discussions of:

- EBITDA and a reconciliation of our net income (loss) to EBITDA, Adjusted EBITDA and a reconciliation of our net income (loss) to Adjusted EBITDA;
- adjusted gross profit and a reconciliation of our gross profit to adjusted gross profit;
- adjusted operating expenses and a reconciliation of our total operating expenses to adjusted operating expenses;
- adjusted operating income and a reconciliation of our total operating income (loss) to adjusted operating income;
- adjusted income tax expense and a reconciliation of our reported income tax (expense) benefit to adjusted income tax expense;
- adjusted effective tax rate and a reconciliation of reported effective tax rate to adjusted effective tax rate;
- adjusted net income and a reconciliation of our net income (loss) to adjusted net income and;
- diluted earnings per share from adjusted net income and a reconciliation of our net income (loss) and the associated diluted earnings (loss) per share to adjusted net income and the associated diluted earnings per share.

Non-GAAP Financial Measures

We report our financial results in accordance with GAAP. To supplement this information, we also use EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income, and diluted earnings per share from adjusted net income, non-GAAP financial measures, in this report. We define EBITDA as net income (loss) before net interest expense, income tax (expense) benefit, depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted for non-cash equity-based compensation costs, non-recurring costs, loss on foreign currency contracts, supply chain optimization costs, impairment of goodwill, transaction and integration costs and IPO readiness costs. EBITDA margin is determined by calculating the percentage EBITDA is of net sales. Adjusted EBITDA margin is determined by calculating the percentage Adjusted EBITDA is of net sales. Adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense and adjusted effective tax rate, and adjusted net income consists of gross profit, total operating expenses, operating income (loss), reported income tax (expense) benefit, reported effective tax rate, and net income (loss) before non-cash equity-based compensation costs, non-recurring costs, loss on foreign currency contracts, supply chain optimization costs, impairment of goodwill, transaction and integration costs, IPO readiness costs, acquisition amortization and tax-related adjustments that we do not consider in our evaluation of our ongoing operating performance from period to period as discussed further below. Diluted earnings per share from adjusted net income is determined by dividing adjusted net income by the weighted average diluted shares outstanding. Non-GAAP financial measures are included in this report because they are key metrics used by management to assess our operating performance. Management believes that non-GAAP financial measures are helpful in highlighting performance trends because non-GAAP financial measures eliminate non-recurring and unusual items and non-cash expenses, which we do not consider indicative of ongoing operational performance. Our presentation of non-GAAP financial measures should not be construed to imply that our future results will be unaffected by these items. By providing these non-GAAP financial measures, management believes we are enhancing investors' understanding of our business and our results of operations, as well as assisting investors in evaluating how well we are executing our strategic initiatives.

EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income are not defined under GAAP. Our use of the terms EBITDA, Adjusted EBITDA, EBITDA margin, Adjusted EBITDA margin, adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income may not be comparable to similarly titled measures of other companies in our industry and are not measures of performance calculated in accordance with GAAP. Our presentation of non-GAAP financial measures is intended to provide supplemental measures of our performance that are not required by, or presented in accordance with, GAAP. Non-GAAP financial measures should not be considered as alternatives to operating income (loss), net income (loss), earnings (loss) per share, net sales or any other performance measures derived in accordance with GAAP, or as measures of operating cash flows or liquidity.

Non-GAAP financial measures have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect any charges for the assets being depreciated and amortized that may need to be replaced in the future;
- Adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate and adjusted net income do not reflect any charges for acquisition amortization;
- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect the significant interest expense or the cash requirements necessary to service interest or, if any, principal payments on our debt;
- EBITDA, Adjusted EBITDA, EBITDA margin and Adjusted EBITDA margin do not reflect our income tax (expense) benefit or the cash requirements to pay our income taxes;
- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect the impact of non-cash equity-based compensation upon our results of operations;
- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not include certain expenses that are non-recurring, infrequent and unusual in nature, costs related to loss on extinguishment of debt, professional fees related to organizational optimization, costs for capital markets-related professional fees for our secondary offering and enterprise resource planning ("ERP") conversion costs related to integrating acquisitions;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect the impact of unrealized loss on foreign currency contracts;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect the impact of supply chain initiatives associated with packaging optimization and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect the impact of impairments of goodwill;

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect the impact of transaction and integration costs associated with the Birch Benders Acquisition as well as costs associated with a large, uncompleted transaction; and

- Adjusted EBITDA, Adjusted EBITDA margin, adjusted operating expenses, adjusted operating income, adjusted income tax expense, adjusted effective tax rate, adjusted net income and diluted earnings per share from adjusted net income do not reflect costs associated with preparing for our IPO, including public company readiness and other professional fees associated with building the organizational infrastructure to support a public company environment.

In the future we may incur expenses similar to those eliminated in this presentation of non-GAAP financial measures.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), their most directly comparable GAAP measure, for each of the periods presented:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Net income (loss)	**$ 1,464**	**$ (4,614)**	**$ (24,764)**	**$ 5,759**
Interest expense, net	6,679	12,547	18,414	24,613
Income tax (expense) benefit	(2,500)	(3,497)	3,895	(8,213)
Depreciation and amortization	9,804	9,494	29,184	28,302
EBITDA	**20,447**	**20,924**	**18,939**	**66,887**
Non-cash equity-based compensation[1]	4,606	979	13,240	2,084
Non-recurring costs[2]	1,211	287	3,611	10,529
Loss on foreign currency contracts[3]	2,758	—	3,255	—
Supply chain optimization[4]	497	—	1,291	—
Impairment of goodwill[5]	—	—	42,052	—
Transaction and integration costs[6]	—	468	59	3,978
Initial public offering readiness[7]	—	3,117	384	5,176
Adjusted EBITDA	**$ 29,519**	**$ 25,775**	**$ 82,831**	**$ 88,654**
EBITDA margin	**9.8 %**	**11.7 %**	**3.1 %**	**12.6 %**
Adjusted EBITDA margin	**14.1 %**	**14.4 %**	**13.4 %**	**16.7 %**

(1) Consists of non-cash equity-based compensation expense associated with the grant of equity-based compensation provided to officers, directors and employees.

(2) Consists of costs related to loss on extinguishment of debt, professional fees related to organizational optimization, costs for capital markets activities for our secondary offering and ERP conversion costs related to integrating acquisitions.

(3) Consists of unrealized loss on foreign currency contracts.

(4) Consists of write-downs associated with packaging optimization and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier.

(5) Consists of expense from impairment of goodwill.

(6) Consists of transaction costs and certain integration costs associated with the Birch Benders Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs related to a large, uncompleted transaction.

(7) Consists of costs associated with preparing for an IPO and other professional fees associated with building the organizational infrastructure to support a public company environment.

EBITDA margin and Adjusted EBITDA margin are calculated by dividing EBITDA and Adjusted EBITDA by net sales for the applicable period.

The following tables provide a reconciliation of adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted interest expense, net, adjusted income tax (expense) benefit and adjusted net income to their most directly comparable GAAP measure, for each of the periods presented:

(In thousands, except share and per share data)	13 Weeks Ended September 24, 2022					
	Gross profit	**Operating expenses**	**Operating income**	**Interest expense, net**	**Income tax (expense)**	**Net income**
As reported (GAAP)	**$ 61,817**	**$ 51,174**	**$ 10,643**	**$ 6,679**	**$ (2,500)**	**$ 1,464**
Adjustments:						
Non-cash equity-based compensation[1]	—	(4,606)	4,606	—	—	4,606
Non-recurring costs[2]	—	(1,211)	1,211	—	—	1,211
Loss on foreign currency contracts[3]	—	(2,758)	2,758	—	—	2,758
Supply chain optimization[4]	497	—	497	—	—	497
Acquisition amortization[8]	—	(6,810)	6,810	—	—	6,810
Tax effect of adjustments[9]	—	—	—	—	(3,021)	(3,021)
One-time tax (expense) benefit items[10]	—	—	—	—	(26)	(26)
As adjusted	**$ 62,314**	**$ 35,789**	**$ 26,525**	**$ 6,679**	**$ (5,547)**	**$ 14,299**
As adjusted (% of net sales)	29.8 %	17.1 %	12.7 %	3.2 %	(2.7)%	6.8 %
Earnings per share:						
Diluted						0.01
Adjusted diluted						0.14
Weighted average shares outstanding:						
Diluted for net income						101,613,927
Diluted for adjusted net income						101,613,927

(In thousands, except share and per share data)	13 Weeks Ended September 25, 2021					
	Gross profit	**Operating expenses**	**Operating income**	**Interest expense, net**	**Income tax (expense)**	**Net income (loss)**
As reported (GAAP)	**$ 49,855**	**$ 38,425**	**$ 11,430**	**$ 12,547**	**$ (3,497)**	**$ (4,614)**
Adjustments:						
Non-cash equity-based compensation[1]	—	(979)	979	—	—	979
Non-recurring costs[2]	—	(287)	287	—	—	287
Transaction and integration costs[6]	298	(170)	468	—	—	468
Initial public offering readiness[7]	—	(3,117)	3,117	—	—	3,117
Acquisition amortization[8]	—	(6,811)	6,811	—	—	6,811
Tax effect of adjustments[9]	—	—	—	—	2,488	2,488
One-time tax (expense) benefit items[10]	—	—	—	—	(2,394)	(2,394)
As adjusted	**$ 50,153**	**$ 27,061**	**$ 23,092**	**$ 12,547**	**$ (3,403)**	**$ 7,142**
As adjusted (% of net sales)	28.1 %	15.1 %	12.9 %	7.0 %	(1.9)%	4.0 %
Earnings (loss) per share:						
Diluted						(0.06)
Adjusted diluted						0.10
Weighted average shares outstanding:						
Diluted for net loss						74,058,447
Diluted for adjusted net income						74,058,508

(In thousands, except share and per share data)	39 Weeks Ended September 24, 2022					
	Gross profit	**Operating expenses**	**Operating income (loss)**	**Interest expense, net**	**Income tax (expense) benefit**	**Net income (loss)**
As reported (GAAP)	**$ 170,748**	**$ 180,993**	**$ (10,245)**	**$ 18,414**	**$ 3,895**	**$ (24,764)**
Adjustments:						
Non-cash equity-based compensation(1)	—	(13,240)	13,240	—	—	13,240
Non-recurring costs(2)	—	(3,611)	3,611	—	—	3,611
Loss on foreign currency contracts(3)	—	(3,255)	3,255	—	—	3,255
Supply chain optimization(4)	1,291	—	1,291	—	—	1,291
Impairment of goodwill(5)	—	(42,052)	42,052	—	—	42,052
Transaction and integration costs(6)	—	(59)	59	—	—	59
Initial public offering readiness(7)	—	(384)	384	—	—	384
Acquisition amortization(8)	—	(20,429)	20,429	—	—	20,429
Tax effect of adjustments(9)	—	—	—	—	(8,472)	(8,472)
One-time tax (expense) benefit items(10)	—	—	—	—	(10,302)	(10,302)
As adjusted	**$ 172,039**	**$ 97,963**	**$ 74,076**	**$ 18,414**	**$ (14,879)**	**$ 40,783**
As adjusted (% of net sales)	27.9 %	15.9 %	12.0 %	3.0 %	(2.4)%	6.6 %
Earnings (loss) per share:						
Diluted						(0.25)
Adjusted diluted						0.40
Weighted average shares outstanding:						
Diluted for net loss						100,901,161
Diluted for adjusted net income						101,226,086

(In thousands, except share and per share data)	39 Weeks Ended September 25, 2021					
	Gross profit	**Operating expenses**	**Operating income**	**Interest expense, net**	**Income tax (expense)**	**Net income**
As reported (GAAP)	**$ 161,300**	**$ 122,715**	**$ 38,585**	**$ 24,613**	**$ (8,213)**	**$ 5,759**
Adjustments:						
Non-cash equity-based compensation(1)	—	(2,084)	2,084	—	—	2,084
Non-recurring costs(2)	—	(10,529)	10,529	—	—	10,529
Transaction and integration costs(6)	298	(3,680)	3,978	—	—	3,978
Initial public offering readiness(7)	—	(5,176)	5,176	—	—	5,176
Acquisition amortization(8)	—	(20,430)	20,430	—	—	20,430
Tax effect of adjustments(9)	—	—	—	—	(4,615)	(4,615)
One-time tax (expense) benefit items(10)	—	—	—		(2,074)	(2,074)
As adjusted	**$ 161,598**	**$ 80,816**	**$ 80,782**	**$ 24,613**	**$ (14,902)**	**$ 41,267**
As adjusted (% of net sales)	30.5 %	15.2 %	15.2 %	4.6 %	(2.8)%	7.8 %
Earnings per share:						
Diluted						0.08
Adjusted diluted						0.56
Weighted average shares outstanding:						
Diluted for net income						74,058,453
Diluted for adjusted net income						74,058,453

(1) Consists of non-cash equity-based compensation expense associated with the grant of equity-based compensation provided to officers, directors and employees.

(2) Consists of costs related to loss on extinguishment of debt, costs related to professional fees related to organizational optimization, costs for capital markets activities for our secondary offering and ERP conversion costs related to integrating acquisitions.

(3) Consists of unrealized loss on foreign currency contracts.

(4) Consists of write-downs associated with packaging optimization and a strategic initiative to move co-packaging production from an international supplier to a domestic supplier.

(5) Consists of expense for impairment of goodwill.

(6) Consists of transaction costs and certain integration costs associated with the Birch Benders Acquisition as well as costs associated with incomplete potential acquisitions and substantial one-time costs related to a large, uncompleted transaction.

(7) Consists of costs associated with preparing for an IPO and other professional fees associated with building the organizational infrastructure to support a public company environment.

(8) Amortization costs associated with acquired trade names and customer lists.

(9) Tax effect was calculated using the Company's adjusted annual effective tax rate.

(10) Represents the removal of the tax effect of impairment of goodwill, removal for remeasurement of deferred taxes related to intangibles for changes in deferred rate and the removal of the tax effect of non-deductible transaction costs.

We adjust the GAAP financial measures for reported income tax (expense) benefit and reported effective tax rate to exclude the effect of non-cash equity-based compensation costs, other non-recurring costs, loss on foreign currency contracts, supply chain optimization costs, impairment of goodwill, transaction and integration costs, IPO readiness costs, and acquisition amortization impacting comparability. We excluded the items which we believe may obscure trends in our pre-tax income and the related tax effect of those items on our adjusted effective tax rate and other impacts to tax expense. This non-GAAP financial measure is intended to provide a meaningful comparison of the Company’s effective tax rate, excluding the pre-tax income and tax effect of the items noted above, for the periods presented. Management uses this non-GAAP financial measure to monitor the effectiveness of adjustments on our tax rate.

The following table provides reconciliations of reported income tax (expense) benefit to adjusted income tax expense and reported effective tax rate to adjusted effective tax rate for the 13 weeks and 39 weeks ended September 24, 2022 and September 25, 2021:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	September 24, 2022	September 25, 2021	September 24, 2022	September 25, 2021
Reported income tax (expense) benefit	**$ (2,500)**	**$ (3,497)**	**$ 3,895**	**$ (8,213)**
Non-cash equity-based compensation	(393)	—	(1,095)	—
Non-recurring costs	42	2,324	(399)	(191)
Loss on foreign currency contracts	(613)	—	(807)	—
Supply chain optimization	(197)	—	(319)	—
Impairment of goodwill	—	—	(10,276)	—
Transaction and integration costs	(1)	(116)	(15)	(978)
Initial public offering readiness	(1)	(50)	(448)	(558)
Acquisition amortization	(1,884)	(2,064)	(5,415)	(4,962)
Adjusted income tax expense[(1)]	**$ (5,547)**	**$ (3,403)**	**$ (14,879)**	**$ (14,902)**
Reported effective tax rate	63.1 %	**(313.1)%**	13.6 %	**58.8 %**
Non-cash equity-based compensation	(4.9)	—	0.7	—
Non-recurring costs	0.5	8,520.7	0.3	(0.9)
Loss on foreign currency contracts	(7.6)	—	0.5	—
Supply chain optimization	(2.4)	—	0.2	—
Impairment of goodwill	—	—	6.7	—
Transaction and integration costs	—	(422.6)	—	(4.7)
Initial public offering readiness	—	(182.2)	0.3	(2.7)
Acquisition amortization	(23.3)	(7,570.6)	3.5	(23.9)
Adjusted effective tax rate[(1)]	25.4 %	**32.2 %**	25.8 %	**26.6 %**

(1) The adjustments to reported income tax (expense) benefit and reported effective tax rate represent the tax effect of the reconciling items included in the reconciliation tables above for adjusted gross profit, adjusted operating expenses, adjusted operating income, adjusted interest expense, net, adjusted income tax (expense) benefit and adjusted net income to their most directly comparable GAAP measure . See "—Non-GAAP Financial Measures" for definitions of our reported income tax (expense) benefit to adjusted income tax expense and reported effective tax rate to adjusted effective tax rate.

Liquidity and Capital Resources

Our primary sources of liquidity include cash flow from operations, cash and cash equivalents, credit capacity under our Credit Facilities and proceeds from equity offerings. As of September 24, 2022, we had cash and equivalents of $81.9 million and availability under our Credit Facilities of $125.0 million.

We expect to use cash primarily for working capital, capital expenditures, purchase commitments, lease obligations and interest payments on our debt. In addition, our use of cash may also include potential acquisitions. We estimate that our capital expenditures will be approximately $15 million to $16 million in fiscal 2022, which we plan to fund with cash generated from our operating activities. We have purchase commitments of approximately $16.5 million and $8.0 million to third-party and related-party manufacturers and suppliers, respectively, over the next 12 months, primarily for materials and supplies used in the manufacture of our products. Our total lease obligations were $25.2 million as of September 24, 2022, with $3.4 million due over the next 12 months. The principal balance on our Initial First Lien Term Loan Facility was $480.8 million as of September 24, 2022, with no obligation to pay principal payments over the remaining term. At a minimum, we are required to make quarterly interest payments and estimate our interest payments to be approximately $39 million to $40 million over the next 12 months.

We believe that our cash flow from operations, availability under our Revolving Facility (as defined herein) and available cash and cash equivalents will be sufficient to meet our liquidity needs for at least the next 12 months. We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of additional indebtedness, the issuance of equity, or a combination thereof. We cannot assure you that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available from additional indebtedness or otherwise to meet our liquidity needs. We may incur additional debt or sell additional equity to finance future acquisitions, which would result in additional expenses or dilution.

Credit Facilities and Unused Borrowing Capacity

In June 2021, Sovos Intermediate (the "Borrower") entered into (i) the First Lien Credit Agreement, pursuant to which the First Lien Lenders agreed to provide senior secured credit facilities, consisting of (a) an initial first lien term loan facility in an original principal amount of $580.0 million (the "Initial First Lien Term Loan Facility" and the loans thereunder, the "Initial First Lien Term Loans") and (b) a revolving facility in an original principal amount of $125.0 million (the "Revolving Facility" and the loans thereunder, the "Initial Revolving Loans"), including a letter of credit facility with a $45.0 million sublimit, and (ii) a Second Lien Credit Agreement among Sovos Intermediate, Sovos Brands Holdings, Inc., Owl Rock Capital Corporation, as administrative agent and collateral agent, and the lenders from time to time party thereto ("Second Lien Lenders"), pursuant to which the Second Lien Lenders agreed to provide a second lien secured credit facility, consisting of an initial term loan facility in an original principal amount of $200.0 million (the "Initial Second Lien Facility" and the loans thereunder, the "Initial Second Lien Loans," and together with the Initial First Lien Term Loans and the Initial Revolving Loans, collectively, the "Credit Facilities"). Our Senior Credit Facilities consisted of (i) an initial term loan facility in an original principal amount equal to $280.0 million, (ii) a revolving credit facility in an original principal amount equal to $45.0 million, including a letter of credit facility with a $15.0 million sublimit, and (iii) an incremental term loan commitment in an original principal amount equal to $100.0 million (collectively, the "Senior Credit Facilities").

In June 2021, we used the proceeds of the Initial First Lien Term Loans and the Initial Second Lien Loans to repay the full amounts outstanding under our Senior Credit Facilities and finance a dividend of $400.0 million to the sole stockholder of Sovos Intermediate, which was ultimately distributed to the limited partners of Sovos Brands Limited Partnership.

In September 2021, using net proceeds of the IPO, we paid the full outstanding principal balance on the Initial Second Lien Loans of $200.0 million. Additionally, in September 2021 and October 2021, we prepaid $59.7 million and $39.5 million, respectively, of the outstanding principal balance under the Initial First Lien Term Loans. As a result of the prepayment on the Initial First Lien Term Loans, all future principal payments have been eliminated for the remaining term of the loan.

The interest rate for the Initial First Lien Term Loans and the Initial Revolving Loans is (at the Borrower's option) either (a) LIBO Rate (as defined in the First Lien Credit Agreement) plus the applicable LIBO Rate spread or (b) Alternate Base Rate (as defined in the First Lien Credit Agreement) plus the applicable Alternate Base Rate spread. The Initial First Lien Term Loans mature on June 8, 2028 and the Initial Revolving Loans mature on June 8, 2026.

As of September 24, 2022, we have available credit of $125.0 million under the Revolving Facility. No revolving loans were outstanding as of September 24, 2022. As of September 24, 2022, the effective interest rate for the Initial First Lien Term Loans and Revolving Facility was 6.02%. As of September 25, 2021, the effective interest rate for the Initial First Lien Term Loans and Revolving Facility was 5.00% and the effective interest rate for the Initial Second Lien Facility was 8.75%.

The First Lien Credit Agreement contains various financial, affirmative and negative covenants that we must adhere to. Under the First Lien Credit Agreement, the Borrower is required to comply with a springing financial covenant, which requires the Borrower to maintain a first lien net leverage ratio of consolidated first lien net debt to consolidated EBITDA (with certain adjustments as set forth in the First Lien Credit Agreement) of no greater than 6.95:1.00. Such financial covenant is tested only if outstanding revolving loans (excluding any undrawn letters of credit) minus unrestricted cash exceeds 35% of the aggregate revolving credit commitments. The financial covenant is subject to customary "equity cure" rights. In addition, under the First Lien Credit Agreement, an annual excess cashflow calculation is required, to determine if any excess is required to be paid on the Initial First Lien Term Loan Facility. As of September 24, 2022, the Company had no outstanding revolving loans, so did not meet the requirement to test the financial covenant under the First Lien Credit Agreement.

Statement of Cash Flows

The following table presents a summary of our cash flows provided by (used in) operating, investing and financing activities for the periods presented:

	39 Weeks Ended	
(In thousands)	**September 24, 2022**	**September 25, 2021**
Cash provided by (used in):		
Operating activities	$ 26,770	$ 18,305
Investing activities	(10,939)	(5,111)
Financing activities	(59)	(7,105)
Change in cash and cash equivalents	**$ 15,772**	**$ 6,089**

Cash Provided by Operating Activities

Cash provided by operating activities was $26.8 million for the 39 weeks ended September 24, 2022, an increase of $8.5 million from $18.3 million for the 39 weeks ended September 25, 2021. The increase was due to a net decrease in net income (loss) and adjustments to reconcile net income (loss) to net cash used in operating activities of $0.5 million offset by a decrease in the use of cash in changes in operating assets and liabilities of $8.0 million. The decrease in net income (loss) of $30.5 million for the 39 weeks ended September 24, 2022 versus the 39 weeks ended September 25,2021 was partially offset by an increase in adjustments to reconcile net income (loss) to net cash used in operating activities of $31.0 million which was primarily due to the $42.1 million goodwill impairment write-down, $11.2 million increase in equity-based compensation related to IPO equity awards and fiscal year 2022 annual equity grants, $0.9 million in higher depreciation and amortization and $3.3 million in foreign currency mark-to-market adjustments. This was partially offset by deferred tax benefit of $18.2 million of which $10.3 million is related to the deferred tax benefit due to the goodwill impairment write-down, $6.2 million is related to deferred tax expense primarily associated with utilization of net operating losses and $1.7 million is related to other temporary adjustments in the 39 weeks ended September 24, 2022 and September 25, 2021. The remaining offset was primarily related to $9.7 million of debt issuance costs associated with the June 2021 debt refinance for the 39 weeks ended September 25, 2021.

The decrease in cash used in operating assets and liabilities was primarily due to a $12.1 million decrease in the use of cash from accounts payable due to the timing of payments at the end of the 39 weeks ended September 24, 2022, a $6.8 million decrease in the use of cash for prepaid expenses primarily related to prepaid capitalized IPO costs during the 39 weeks ended September 25, 2021, a $5.7 million decrease in the use of cash from accounts receivable resulting from accelerated receipts at the end of the 39 weeks ended September 24, 2022, and a $4.9 million decrease in the use of cash from accrued expenses resulting from lower annual incentive payouts, offset by more cash used for interest payments in the 39 weeks ended September 24, 2022. The decreases in the use of cash were offset by a $21.2 million increase in the use of cash for inventory due to inventory replenishment during the 39 weeks ended September 24, 2022.

Cash Used in Investing Activities

Cash used in investing activities was $10.9 million for the 39 weeks ended September 24, 2022, an increase of $5.8 million from $5.1 million for the 39 weeks ended September 25, 2021. The increase was related to increased capital expenditures, primarily due to new production equipment at a co-packing manufacturing facility and packaging automation at our Austin, Texas manufacturing facility.

Cash Used in Financing Activities

Cash used in financing activities was $59 thousand for the 39 weeks ended September 24, 2022, a decrease of $7.0 million from $7.1 million for the 39 weeks ended September 25, 2021. The decrease was primarily due to $766.1 million net debt proceeds from the Credit Facilities and the $6.0 million in proceeds from payment in full of a stockholder note receivable, partially offset by the $400.0 million shareholder dividend payment, the $374.1 million repayment of the Senior Credit Facilities and the $5.0 million contingent earnout paid for *Birch Benders* during the 39 weeks ended September 25, 2021.

Off-Balance Sheet Arrangements

As of September 24, 2022, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, income or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our consolidated financial statements, refer to our audited consolidated financial statements as of December 25, 2021 included in our Annual Report on Form 10-K, as amended, filed with the Securities and Exchange Commission (the “SEC”) on March 15, 2022 (“2021 Form 10-K”).

Recently Issued Accounting Pronouncements

See Note 2. *Summary of Significant Accounting Policies*, to the condensed consolidated financial statements included in this Form 10-Q for a discussion of recently issued accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to the following market risks:

Commodity and Packaging Prices and Inflation

In the 39 weeks ended September 24, 2022, we experienced increased cost of sales, as a percentage of net sales, including higher freight and shipping costs and raw material costs. We continue to expect higher inflation and distribution costs given the tight global supply chain and current geopolitical tensions. Consistent with the industry, we are seeing cost increases in several packaging and raw materials such as milk, animal proteins, fruit, glass, resin and cardboard. Transportation challenges continue to be acute, particularly due to logistical issues at major ports as well as intermodal and trucking delays, which have resulted in long lead times and higher logistics costs.

Interest Rate Risk

We are exposed to interest rate risk through fluctuations in interest rates on our debt obligations. Interest rate changes do not affect the market value of such debt, but could impact the amount of our interest payments, and accordingly, our future earnings and cash flows, assuming other factors are held constant. As of September 24, 2022, we had $480.8 million of variable rate debt outstanding under our Credit Facilities. See “Liquidity and Capital Resources — Credit Facilities and Unused Borrowing Capacity” above. Based upon our principal amount of long-term debt outstanding at September 24, 2022, a hypothetical 1% increase or decrease in average interest rates would impact our annual interest expense in the next year by approximately $5.0 million.

Foreign Currency Exchange Risk

The Company is exposed to certain risks relating to its ongoing business operations including foreign currency exchange rate risk. Fluctuations in foreign currency exchange rates could result in, among other things, our paying higher prices for certain imported products and services, and realizing lower net income, on a U.S. dollar basis, from our international purchases. For additional information regarding our foreign currency exchange risk refer to Note 12. *Hedging and Derivative Financial Instruments*, to the consolidated financial statements in this Form 10-Q.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures.

Management, including the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation (pursuant to Rule 13a-15(b) under the Exchange Act) of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 24, 2022, the Company’s disclosure controls and procedures were effective. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls and procedures may become inadequate because of changes in conditions, or that the degree of compliance with the controls and procedures may deteriorate.

Changes in Internal Control over Financial Reporting

Based on management's evaluation, there were no changes in our internal control over financial reporting during the 13 weeks ended September 24, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

From time to time, we may become involved in actions, claims, suits and other legal proceedings arising in the ordinary course of our business, including lawsuits or claims relating to product labelling or related disclaimers, product recalls and product liability as well as the marketing of our products, intellectual property, contracts, employment matters, environmental matters or other aspects of our business. We are not currently a party to any actions the outcome of which would, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations if determined adversely to us.

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. Before investing in our common stock, in addition to the other information discussed in this report, please consider the factors described in Part I, Item 1A., "Risk Factors" in our 2021 Form 10-K which could materially affect our business, financial condition or future results. The information presented below updates, and should be read in conjunction with, the risk factors disclosed in our 2021 Form 10-K, but these are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition or operating results. The occurrence of any of the risks disclosed in our 2021 Form 10-K or any of the following risks could materially and adversely affect our business, financial condition, results of operations, in which case the trading price of our common stock could decline and you could lose all or part of your investment.

Our business has been and will continue to be negatively impacted by decreases in the supply of and increases in the price of ingredients and other materials and labor, manufacturing, distribution and other costs, and we may not be able to offset increasing costs through cost savings initiatives or pricing.

We purchase raw materials, including agricultural products, whole milk, almond and other flours, tomatoes, cheese, chicken and meat and other ingredients, such as fruit preparations, from growers, commodity processors, ingredient suppliers and other food companies located primarily in the United States. We also purchase packaging materials, including glass jars, foils, tubs, caps and lids, trays, labels, cardboard, cartons and other packaging, from global packaging manufacturers. Our co-manufacturers also purchase ingredients and packaging materials and can pass along cost increases to us subject, in some instances, to certain contractual limitations. Ingredients and packaging materials are subject to increases in price attributable to a number of factors, including disruptions in supply, global geopolitical tensions, other political unrest, tariffs, sanctions, trade disputes, drought and excessive rain, fire, temperature extremes and other adverse weather events, water scarcity, scarcity of suitable agricultural land, crop size, cattle cycles, herd and flock disease, crop disease and crop pests. Certain ingredients used in some of our products are organic or non-GMO, and organic and non-GMO raw materials may be subject to additional pressures from increased demand or greater supply vulnerability. We are particularly vulnerable to agricultural disasters or pestilence resulting in price increases associated with the tomato crops in Italy and the United States, the eggplant crop in the United States and Mexico, egg production in the United States, the production of milk in the United States, honey production in the United States and Canada and fruit crop supply because of our and our co-packers' large purchases of these materials. Crop disease or other crop failures and crop pests, such as insects, plant diseases and fungi, as well as herd and flock diseases, such as mad cow disease, swine influenza and avian influenza, and issues impacting pollinators and bee colonies, could impact the cost and availability of the agricultural products, animal proteins and eggs used in our products. Factors associated with the COVID-19 pandemic have resulted in increased demand for and disrupted supply of some ingredients and packaging materials. Factors associated with global geopolitical tensions, including relating to Ukraine, have also disrupted packaging and other supplies and increased costs. We expect factors associated with COVID-19 and global geopolitical tensions to continue to impact our business and may become more acute, particularly with respect to oil and its related impact on transportation and logistics costs as well as resin costs. Fluctuations in commodity prices can lead to retail price volatility and increased price competition and can influence consumer and trade buying patterns.

In addition, the costs of labor, logistics, manufacturing, energy, fuel and packaging materials and other costs related to the production and distribution of our products can from time to time increase significantly and unexpectedly. We attempt to manage some of these risks by entering into supply contracts and advance commodities purchase agreements from time to time and implementing cost saving measures. Our suppliers may also close (whether permanently or temporarily), causing us to seek suitable suppliers elsewhere. Factors associated with the COVID-19 pandemic have resulted in increased demand for transportation and the availability and cost of transportation for our products have been and could continue to be impacted. Moreover, we are exposed to higher costs in certain areas, such as front-line employee compensation as well as incremental costs associated with newly added health screenings, temperature checks and enhanced cleaning and sanitation protocols to protect our employees, due to the COVID-19 pandemic. Third parties, such as co-packers, suppliers, distributors, retailers and transportation companies, are subject to similar cost pressures and may seek to pass these increased costs on to us. Competition for co-packers, including increased demand for co-packed products, could also increase the costs of manufacturing and packing our products.

Further, if we increase prices to offset higher costs, we could experience lower demand for our products and sales volumes. We recently increased prices for *Rao's* sauces and also announced that we will increase prices for other products in our portfolio, which could adversely impact demand and sales. We may implement additional price increases in the future, including multiple price increases in a fiscal year, and we may not be able to accurately forecast pricing elasticities and the resulting impact on volume growth and/or distribution gains. To the extent we are unable to offset present and future cost increases related to the production and distribution of our products, it could have a material adverse effect on our business, financial condition and results of operations.

We rely on the performance of major retailers, wholesalers, distributors and mass merchants for the success of our business, and if they give higher priority to other brands or products, take steps to maintain or improve their margins by, among other things, raising the on-shelf prices of our brands and products and/or imposing surcharges on us, or if they perform poorly or declare bankruptcy, it could have a material adverse effect on our business, financial condition and results of operations.

We sell our products principally to retail outlets and wholesale distributors, including traditional supermarkets, mass merchants, warehouse clubs, wholesalers, specialty food distributors, military commissaries and non-food outlets, such as drug store chains, dollar stores and e-commerce retailers. The poor performance of our major wholesalers, retailers or chains or our inability to collect accounts receivable from our customers could have a material adverse effect on our business, financial condition and results of operations. Our major wholesalers, retailers or chains may also seek to maintain or improve their performance and margins by raising the on-shelf pricing of our brands and products and/or by imposing surcharges on us. Moreover, consolidation among our customers may allow such customers to demand lower pricing, increased promotional programs and increased deductions and allowances, among other items.

In addition, our customers offer branded and private label products that compete directly with our products for retail shelf space and consumer purchases. Accordingly, there is a risk that our customers may give higher priority to their own products or to the products of our competitors. In the future, our customers may not continue to purchase our products or provide our products with adequate levels of promotional support or shelf space or may replace our branded products with private label products. Such risks may be particularly acute in historically declining market categories, such as yogurt or diet trends. Emerging alternative retail channels, such as online-only grocery delivery services, also continue to evolve and impact the packaged food industry. The performance of major retailers, wholesalers, specialty distributors and mass merchants and their prioritization of our brands and their potential consolidation could have a material adverse effect on our business, financial condition and results of operations.

Economic downturns and inflation could limit consumer and customer demand for our products.

The willingness of consumers to purchase our products depends in part on local, national and global economic conditions, including rates of inflation and the existence or expectation of a recessionary period. Deteriorating economic and political conditions in our major markets, such as increases in inflation, increased unemployment, decreases in disposable income and declines in consumer confidence, whether as a result of the COVID-19 pandemic, geopolitical tensions or other factors, could cause a decrease in demand for our overall product set, particularly higher priced products.

In an economic downturn such as a recession or inflationary environment, consumers may purchase more generic, private label and other products that are lower in price than our products and may forego certain purchases altogether. Consumers may reduce the number of premium products that they purchase where there are mid-tier alternatives, given that premium products generally have higher retail prices than their mid-tier counterparts. Due to changes in consumer demand, we could experience a reduction in sales, a reduction in sales of higher margin products or a shift in our product mix to lower margin offerings. Our customers may also become more conservative in response to these conditions and seek to reduce their inventories or change their shelf sets to prioritize lower-price products. In addition, as a result of economic conditions, competition or customer actions, we may be unable to raise our prices sufficiently to protect margins. The impacts of an economic downturn, recession, inflation or the COVID-19 pandemic may be greater than we expect, and demand for our products may not meet our expectations in the future. Current global geopolitical tensions, including related to Ukraine, may exacerbate any economic downturn and inflation. Prolonged unfavorable economic conditions may have an adverse effect on any of these factors and could have a material adverse effect on our business, financial condition and results of operations.

We rely on third-party co-packers for a significant portion of our manufacturing needs, including one co-packer for the substantial majority of our* Rao's Homemade *sauce products. If our co-packers do not accept or fulfill purchase orders from us, or impose various price increases or surcharges, or we are unable to enter into additional or future co-packing agreements, it could have a material adverse effect on our business, financial condition and results of operations.

We rely upon co-packers for a significant portion of our manufacturing needs. Our success depends, in part, on maintaining a strong sourcing and manufacturing platform. We believe that there are a limited number of high-quality, fiscally stable co-packers in the industry with the equipment and operational capabilities required to make our products, and many of our co-packing agreements do not include purchase or supply minimums. If we were required to obtain additional or alternative co-packing agreements or arrangements in the future, or if co-packers experience increased costs, capacity issues or disruptions (whether as a result of the COVID-19 pandemic or otherwise), production of our products may be more costly or delayed or postponed and/or the availability of some of our products may be reduced or delayed. To meet certain service level minimums for our customers and avoid financial penalties that could result from a failure to meet such minimums under our agreements with customers, we may incur additional expenses, including accepting higher co-packer charges and paying premiums for faster, more expensive transportation methods or agreeing to production premiums with our co-packers.

In addition, we rely on La Regina, a third-party co-packer, for the substantial majority of our *Rao's Homemade* sauce products. La Regina currently produces our *Rao's Homemade* sauce products in Italy and the United States. Any disruption to La Regina's production or delivery of our *Rao's Homemade* sauce products, whether due to the political environment, global geopolitical tensions (including related to Ukraine), COVID-19 pandemic related government restrictions, agricultural disasters or pestilence, issues with production (including the effects of inflation on ingredient and other costs), events affecting ports in Italy or the United States or otherwise, could have a material adverse effect on our business, financial condition and results of operations. To facilitate La Regina's establishment of the U.S. production location in Alma, Georgia, we agreed to provide La Regina with exclusivity for the third-party production of certain of our products. However, because the Alma, Georgia production location uses tomatoes from Italy for the production of our *Rao's*

Homemade and *Rao's Homestyle* sauce products, production in Georgia may still be impacted by events affecting La Regina in Italy. We have, from time to time, made certain concessions to La Regina including accepting various surcharges, and paying for our products more quickly than required under our contract and we may make similar or other concessions in the future. La Regina is also our landlord for a distribution center that we opened in Alma, Georgia. In the event of a breach by La Regina of the U.S supply agreement, we have a right to purchase the facility in Alma, Georgia at cost, including the underlying real property, fixtures and equipment; however, we may encounter difficulties or delays with the exercise of the right to purchase or with assuming the operations at the Alma, Georgia facility. If our relationship with La Regina deteriorates, or if La Regina experiences financial, operational or other issues, we would be required to make alternative arrangements to produce *Rao's Homemade* sauce products, such as assuming manufacturing operations on our own, developing our own internal manufacturing capabilities or finding one or more alternative co-packing arrangements, which may be costly or time-consuming to complete. If such an event were to occur, and we were unable to find alternative arrangements in a timely manner or on satisfactory terms, it could have a material adverse effect on our business, financial condition and results of operations

Our international activities expose us to fluctuations in currency exchange rates that could adversely affect our results of operations and cash flows.

Our international product manufacturing (primarily in Italy) and supply agreements expose us to changes in foreign currency exchange rates. Our major foreign currency exposure involves the market in Western Europe. Fluctuations in foreign currency exchange rates could result in, among other things, our paying higher prices for certain imported products and services, and realizing lower net income, on a U.S. dollar basis, from our international purchases due to the effects of exchange from weakened functional currencies. Any of these risks could adversely affect our results of operations and cash flows. We use derivatives to help manage the currency risk related to certain business transactions. To the extent these transactions are completed, the contracts minimize our risk from exchange rate fluctuations because they offset gains and losses on the related derivatives. However, there can be no assurances that we will be able to effectively utilize these contracts in the future to offset significant risk related to fluctuations in currency exchange rates. In addition, there can be no assurances that counterparties to such contracts will perform their contractual obligations to us in order for us to realize the anticipated benefits of the contracts.

A change in the assumptions used to value our goodwill or our intangible assets, or the impairment of our goodwill or our intangible assets, could have a material adverse effect on our business, financial condition and results of operations.

Our total assets include substantial goodwill and intangible assets, such as tradenames and trademarks. Goodwill and indefinite-lived intangible assets are tested for impairment annually and when indicators of impairment exist. The goodwill and indefinite-lived intangible impairment test involves a qualitative evaluation and a quantitative test. The qualitative assessment evaluates factors including macro-economic conditions, industry-, company- and brand- specific factors and historical company and brand performance in assessing fair value. If it is determined that it is more likely than not that the fair value of the reporting unit or indefinite-lived asset is less than the carrying value, a quantitative test is then performed. Otherwise, no further testing is required. When using a quantitative approach to assess goodwill for impairment, we compare the fair value of the reporting unit to the carrying amount, including goodwill. For indefinite-lived intangible assets, impairment is assessed by comparing the fair value of the asset with its carrying value. In addition, we evaluate definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the estimated fair value of the reporting unit or indefinite-lived asset is less than its carrying amount, impairment is indicated, requiring recognition of an impairment charge for the differential. Determining the fair value of a reporting unit or indefinite-lived asset is judgmental in nature and involves the use of significant estimates and assumptions. Factors, such as future adverse changes in market conditions or poor operating results of these underlying assets, could result in losses or an inability to recover the carrying value of the asset that may not be reflected in the asset's current carrying value, thereby requiring impairment charges in the future. If operating results for any of our brands, including brands that we may acquire in the future, deteriorate or fail to meet our projections or expectations, we may be required to record non-cash impairment charges to goodwill and intangible assets. In addition, any significant decline in our market capitalization, even if due to macroeconomic factors that could be affected by the COVID-19 pandemic or otherwise, could put pressure on the carrying value of our goodwill. A determination that all or a portion of our goodwill or intangible assets are impaired, although such determination would result in a non-cash charge to operations, could have a material adverse effect on our business, financial condition and results of operations.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Document
3.1	Amended and Restated Certificate of Incorporation of Sovos Brands, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on September 27, 2021).
3.2	Amended and Restated Bylaws of Sovos Brands, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on September 27, 2021).
4.1	Form of Certificate of Common Stock of Sovos Brands, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Form S-1 filed on August 27, 2021).
4.2	Registration Rights Agreement dated as of September 23, 2021, by and among Sovos Brands, Inc. and the other parties thereto (incorporated by reference to Exhibit 4.2 to the Company's Form 10-Q filed on November 9, 2021).
10.1	First Lien Credit Agreement, dated as of June 8, 2021, by and among Sovos Brands Intermediate, Inc., Sovos Brands Holdings, Inc., the financial institutions party thereto and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Form S-1 filed on August 27, 2021).
10.2	Second Lien Credit Agreement, dated as of June 8, 2021, by and among Sovos Brands Intermediate, Inc., Sovos Brands Holdings, Inc., the financial institutions party thereto and Owl Rock Capital Corporation, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's Form S-1 filed on August 27, 2021).
†10.3	Employment Agreement, dated as of January 14, 2017, between Grand Prix Intermediate, Inc. and Todd R. Lachman (incorporated by reference to Exhibit 10.3 to the Company's Form S-1 filed on August 27, 2021).
†10.4	Amendment to the Employment Agreement, dated as of September 1, 2021, between Sovos Brands Intermediate, Inc. and Todd R. Lachman (incorporated by reference to Exhibit 10.4 to the Company's Form S-1/A filed on September 9, 2021).
†10.5	Sovos Brands Richard Greenberg Employment Term Sheet (incorporated by reference to Exhibit 10.5 to the Company's Form S-1 filed on August 27, 2021).
†10.6	Retention Agreement dated January 14, 2022 between Sovos Brands Intermediate, Inc. and Richard Greenberg (incorporated by reference to Exhibit 10.6 to the Company's Form 10-K filed on March 15, 2022).
†10.7	Sovos Brands Limited Partnership 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Form S-1 filed on August 27, 2021).
†10.8	Amendment No. 1 to Sovos Brands Limited Partnership 2017 Equity Incentive Plan, dated as of February 10, 2021 (incorporated by reference to Exhibit 10.7 to the Company's Form S-1 filed on August 27, 2021).
†10.9	Sovos Brands, Inc. 2021 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Form S-1/A filed on September 9, 2021).
†10.10	Sovos Brands, Inc. 2021 Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.9 to the Company's Form S-1 filed on August 27, 2021).
†10.11	Sovos Brands, Inc. Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.10 to the Company's Form S-1 filed on August 27, 2021).
†10.12	Incentive Unit Grant Agreement, dated as of June 7, 2017, between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.11 to the Company's Form S-1 filed on August 27, 2021).

†10.13	Incentive Unit Grant Agreement, dated as of August 29, 2017, between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.12 to the Company's Form S-1 filed on August 27, 2021).
†10.14	Incentive Unit Grant Agreement, dated as of May 1, 2019 between Sovos Brands Limited Partnership and Todd R. Lachman (incorporated by reference to Exhibit 10.13 to the Company's Form S-1 filed on August 27, 2021).
†10.15	Incentive Unit Grant Agreement, dated as of June 26, 2017 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.14 to the Company's Form S-1/A filed on September 9, 2021).
†10.16	Incentive Unit Grant Agreement, dated as of August 23, 2017 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.15 to the Company's Form S-1/A filed on September 9, 2021).
†10.17	Incentive Unit Grant Agreement, dated as of May 1, 2019 between Sovos Brands Limited Partnership and Richard Greenberg (incorporated by reference to Exhibit 10.16 to the Company's Form S-1/A filed on September 9, 2021).
†10.18	Incentive Unit Grant Agreement, dated as of November 14, 2019 between Sovos Brands Limited Partnership and Chris Hall (incorporated by reference to Exhibit 10.17 to the Company's Form S-1/A filed on September 9, 2021).
†10.19	Form of Amendment to the Incentive Unit Grant Agreement between Sovos Brands Limited Partnership and certain of its officers and directors (incorporated by reference to Exhibit 10.18 to the Company's Form S-1/A filed on September 9, 2021).
†10.20	Form of Restricted Stock Agreement between Sovos Brands, Inc. and certain of its officers and directors (incorporated by reference to Exhibit 10.19 to the Company's Form S-1/A filed on September 9, 2021).
†10.21	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership, Todd R. Lachman, and Christine R. Lachman and The St. Louis Trust Company, as trustees of the Todd Lachman 2021 Family Trust (incorporated by reference to Exhibit 10.20 to the Company's Form 10-Q filed on November 9, 2021).
†10.22	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Richard P. Greenberg (incorporated by reference to Exhibit 10.21 to the Company's Form 10-Q filed on November 9, 2021).
†10.23	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Christopher W. Hall (incorporated by reference to Exhibit 10.22 to the Company's Form 10-Q filed on November 9, 2021).
†10.24	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and William R. Johnson (incorporated by reference to Exhibit 10.23 to the Company's Form 10-Q filed on November 9, 2021).
†10.25	Restricted Stock Agreement, dated as of September 22, 2021 among Sovos Brands, Inc., Sovos Brands Limited Partnership and Daniel L. Poland (incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q filed on November 9, 2021).
†10.26	Form of Notice of Modification of Vesting Terms of Restricted Stock Agreement among Sovos Brands, Inc., Sovos Brands Limited Partnership and certain of its officers and directors (incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q filed on November 9, 2021).
†10.27	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership, Todd R. Lachman, and Christine R. Lachman and The St. Louis Trust Company, as trustees of the Todd Lachman 2021 Family Trust (incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q filed on November 9, 2021).

†10.28	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and Richard P. Greenberg (incorporated by reference to Exhibit 10.27 to the Company's Form 10-Q filed on November 9, 2021).
†10.29	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and Christopher W. Hall (incorporated by reference to Exhibit 10.28 to the Company's Form 10-Q filed on November 9, 2021).
†10.30	Notice of Modification of Vesting Terms of Restricted Stock Agreement, dated as of September 22, 2021, among Sovos Brands, Inc., Sovos Brands Limited Partnership and William R. Johnson (incorporated by reference to Exhibit 10.29 to the Company's Form 10-Q filed on November 9, 2021).
†10.31	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.30 to the Company's Form 10-Q filed on November 9, 2021).
†10.32	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.32 to the Company's Form 10-K filed on March 15, 2022).
†10.33	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Performance-Based Restricted Stock Unit Award Agreement (IPO Grants) (incorporated by reference to Exhibit 10.22 to the Company's Form S-1/A filed on September 9, 2021).
†10.34	Form of Sovos Brands, Inc. 2021 Equity Incentive Plan Restricted Stock Unit Award Agreement (IPO Grants) (incorporated by reference to Exhibit 10.23 to the Company's Form S-1/A filed on September 9, 2021).
†10.35	Form of Executive Officer and Director Indemnification Agreement for Sovos Brands, Inc. (incorporated by reference to Exhibit 10.22 to the Company's Form S-1 filed on August 27, 2021).
†10.36	Letter Agreement dated March 14, 2022 between Sovos Brands Intermediate, Inc. and Kirk Jensen (incorporated by reference to Exhibit 10.36 to the Company's Form 10-K filed on March 15, 2022).
†10.37	Form of Restricted Stock Agreement between Sovos Brands, Inc. and certain of its directors (incorporated by reference to Exhibit 10.37 to the Company's Form 10-Q filed on August 3, 2022).
10.38	Letter Agreement dated June 15, 2022 between Sovos Brands, Inc. and Tamer Abuaita (incorporated by reference to Exhibit 10.38 to the Company's Form 10-Q filed on August 3, 2022).
21.1	List of subsidiaries (incorporated by reference to Exhibit 21.1 to the Company's Form S-1 filed on August 27, 2021).
*31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

* Filed herewith.

† Management contract or compensatory plan or arrangement.

SIGNATURES

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.

Sovos Brands, Inc.

		By:	/s/ Christopher W. Hall
Date:	November 2, 2022	Name:	Christopher W. Hall
		Title:	Chief Financial Officer *(Principal Financial Officer and Authorized Officer)*

Exhibit 31.1

CERTIFICATION

PURSUANT TO RULES 13a-14(a) AND 15d-14(a)

OF THE U.S. SECURITIES EXCHANGE ACT OF 1934

AS ADOPTED PURSUANT TO

Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd R. Lachman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the "registrant");

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

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

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

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [omitted];
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2022

By:	/s/ Todd R. Lachman
Name:	Todd R. Lachman
Title:	Chief Executive Officer, President and Director
	(Principal Executive Officer)

CERTIFICATION

PURSUANT TO RULES 13a-14(a) AND 15d-14(a)

OF THE U.S. SECURITIES EXCHANGE ACT OF 1934

AS ADOPTED PURSUANT TO

Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher W. Hall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the “registrant”);

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

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

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

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [omitted];
   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 2, 2022	By:	/s/ Christopher W. Hall
	Name:	Christopher W. Hall
	Title:	Chief Financial Officer
		(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Sovos Brands, Inc. (the “Company”) for the fiscal period ended September 24, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

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

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

This certificate is being furnished solely for the purposes of 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

Date: November 2, 2022	By:	/s/ Todd R. Lachman
	Name:	Todd R. Lachman
	Title:	Chief Executive Officer, President and Director *(Principal Executive Officer)*

Date: November 2, 2022	By:	/s/ Christopher W. Hall
	Name:	Christopher W. Hall
	Title:	Chief Financial Officer *(Principal Financial Officer)*