UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 30, 2019

OR

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

Commission File Number: 001-36729

FRESHPET, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-1884894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Plaza Drive, 1st Floor, Secaucus, New Jersey	**07094**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (201) 520-4000

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	FRPT	NASDAQ Global 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 if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 November 2, 2019, the registrant had 36,090,096 shares of common stock, $0.001 par value per share, outstanding.

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Forward-Looking Statements

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “aim,” “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “outlook,” “potential,” “project,” “projection,” “plan,” “intend,” “seek,” “may,” “could,” “would,” “will,” “should,” “can,” “can have,” “likely,” the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- our ability to successfully implement our growth strategy;
- our ability to timely complete the construction of our Freshpet Kitchens 2.0 and achieve the anticipated benefits therefrom;
- our ability to generate sufficient cash flow or raise capital on acceptable terms;
- the loss of key members of our senior management team;
- allegations that our products cause injury or illness or fail to comply with government regulations;
- the loss of a significant customer;
- the entrance of new competitors into our industry;
- the effectiveness of our marketing and trade spending programs;
- our ability to introduce new products and improve existing products;
- our limited manufacturing capacity;
- the impact of government regulation, scrutiny, warning and public perception;
- the effect of false marketing claims;
- adverse weather conditions, natural disasters, pestilences and other natural conditions affecting our operations;
- our ability to develop and maintain our brand;
- the effect of potential price increases and shortages on the inputs, commodities and ingredients that we require;
- our ability to manage our supply chain effectively;
- volatility in the price of our common stock; and
- other factors discussed under the headings “Risk Factors” and “Business” in our Annual Report on Form 10-K and under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K and in this report.

While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. You should evaluate all forward-looking statements made in this report in the context of these risks and uncertainties.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FRESHPET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,205,735	$ 7,554,388
Accounts receivable, net of allowance for doubtful accounts	19,500,754	12,326,703
Inventories, net	13,306,994	9,317,232
Prepaid expenses	1,653,217	1,078,232
Other current assets(1)	10,756,779	681,550
Total Current Assets	52,423,479	30,958,105
Property, plant and equipment, net	136,688,547	102,094,248
Deposits on equipment	4,046,973	4,730,176
Operating lease right of use assets	9,460,364	—
Other assets	3,680,076	2,182,329
Total Assets	$ 206,299,439	$ 139,964,858
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 17,839,951	$ 9,166,412
Accrued expenses(1)	19,447,055	9,050,551
Current operating lease liabilities	1,129,806	—
Total Current Liabilities	$ 38,416,812	$ 18,216,963
Long term debt	35,395,988	—
Long term operating lease liabilities	8,712,671	—
Other liabilities	—	273,420
Total Liabilities	$ 82,525,471	$ 18,490,383
STOCKHOLDERS' EQUITY:		
Common stock — voting, $0.001 par value, 200,000,000 shares authorized, 36,100,662 issued and 36,086,493 outstanding on September 30, 2019, and 35,556,595 issued and 35,542,426 outstanding on December 31, 2018	36,100	35,556
Additional paid-in capital	331,538,514	323,079,437
Accumulated deficit	(207,368,869)	(201,352,682)
Accumulated other comprehensive income	(175,551)	(31,610)
Treasury stock, at cost — 14,169 shares on September 30, 2019 and on December 31, 2018	(256,226)	(256,226)
Total Stockholders' Equity	123,773,968	121,474,475
Total Liabilities and Stockholders' Equity	$ 206,299,439	$ 139,964,858

See accompanying notes to the unaudited consolidated financial statements.

(1) See Note 11 for additional information.
(2)

FRESHPET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
NET SALES	$ 65,265,901	$ 50,799,601	$ 180,110,282	$ 141,594,158
COST OF GOODS SOLD	34,560,261	27,183,648	96,163,080	74,972,294
GROSS PROFIT	30,705,640	23,615,953	83,947,202	66,621,864
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	27,171,138	23,572,314	89,075,672	73,397,781
INCOME (LOSS) FROM OPERATIONS	3,534,502	43,639	(5,128,470)	(6,775,917)
OTHER INCOME/(EXPENSES):				
Other Income/(Expenses), net	(137,624)	(27,392)	(141,077)	(24,302)
Interest Expense	(310,465)	(94,381)	(688,890)	(261,307)
	(448,089)	(121,773)	(829,967)	(285,609)
INCOME (LOSS) BEFORE INCOME TAXES	3,086,413	(78,134)	(5,958,437)	(7,061,526)
INCOME TAX EXPENSE	19,250	19,032	57,750	57,096
INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 3,067,163	$ (97,166)	$ (6,016,187)	$ (7,118,622)
OTHER COMPREHENSIVE INCOME (LOSS):				
Change in foreign currency translation	$ (81,667)	$ (54,325)	$ (143,941)	$ (55,958)
TOTAL OTHER COMPREHENSIVE (LOSS)	(81,667)	(54,325)	(143,941)	(55,958)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 2,985,496	$ (151,491)	$ (6,160,128)	$ (7,174,580)
NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
-BASIC	$ 0.09	$ (0.00)	$ (0.17)	$ (0.20)
-DILUTED	$ 0.08	$ (0.00)	$ (0.17)	$ (0.20)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING USED IN COMPUTING NET INCOME (LOSS) PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS				
-BASIC	36,079,935	35,396,550	35,894,377	35,259,365
-DILUTED	37,289,478	35,396,550	35,894,377	35,259,365

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES

CHANGES TO STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock - Voting					Treasury Stock		
	Number of Shares Issued	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Number of Shares	Amount	Total Stockholders' Equity
BALANCES, December 31, 2018	35,556,595	$ 35,556	$ 323,079,437	$ (201,352,682)	$ (31,610)	14,169	$ (256,226)	$ 121,474,475
Exercise of options to purchase common stock	248,195	248	1,791,420	—	—	—	—	1,791,668
Issuance of restricted stock units	61,532	62	(673,836)	—	—	—	—	(673,774)
Share-based compensation expense	—	—	1,260,126	—	—	—	—	1,260,126
Foreign Currency Translation	—	—	—	—	91,047	—	—	91,047
Net loss	—	—	—	(3,422,000)	—	—	—	(3,422,000)
BALANCES, March 31, 2019	35,866,322	$ 35,866	$ 325,457,147	$ (204,774,682)	$ 59,437	14,169	$ (256,226)	$ 120,521,542
Exercise of options to purchase common stock	194,497	194	1,983,685	—	—	—	—	1,983,879
Issuance of restricted stock units	29,126	29	(579,207)	—	—	—	—	(579,178)
Share-based compensation expense	—	—	1,480,882	—	—	—	—	1,480,882
Foreign Currency Translation	—	—	—	—	(153,321)	—	—	(153,321)
Net loss	—	—	—	(5,661,350)	—	—	—	(5,661,350)
BALANCES, June 30, 2019	36,089,945	$ 36,089	$ 328,342,507	$ (210,436,032)	$ (93,884)	14,169	$ (256,226)	$ 117,592,454
Exercise of options to purchase common stock	10,717	11	66,359	—	—	—	—	66,370
Share-based compensation expense	—	—	3,129,648	—	—	—	—	3,129,648
Foreign Currency Translation	—	—	—	—	(81,667)	—	—	(81,667)
Net income	—	—	—	3,067,163	—	—	—	3,067,163
BALANCES, September 30, 2019	36,100,662	$ 36,100	$ 331,538,514	$ (207,368,869)	$ (175,551)	14,169	$ (256,226)	$ 123,773,968

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES

CHANGES TO STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock - Voting					Treasury Stock		
	Number of Shares Issued	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Number of Shares	Amount	Total Stockholders' Equity
BALANCES, December 31, 2017	35,132,548	$ 35,132	$ 312,783,195	$ (195,991,478)	$ 76,129	—	$ —	$ 116,902,978
Exercise of options to purchase common stock	6,696	7	53,855	—	—	—	—	53,862
Share-based compensation expense	—	—	1,092,260	—	—	—	—	1,092,260
Foreign Currency Translation	—	—	—	—	199,554	—	—	199,554
Net loss	—	—	—	(3,520,937)	—	—	—	(3,520,937)
BALANCES, March 31, 2018	35,139,244	$ 35,139	$ 313,929,310	$ (199,512,415)	$ 275,683	—	$ —	$ 114,727,717
Exercise of options to purchase common stock	103,693	104	945,324	—	—	—	—	945,428
Issuance of restricted stock units	74,583	75	(75)	—	—	14,169	(256,226)	(256,226)
Share-based compensation expense	—	—	1,301,774	—	—	—	—	1,301,774
Foreign Currency Translation	—	—	—	—	(201,187)	—	—	(201,187)
Net loss	—	—	—	(3,500,519)	—	—	—	(3,500,519)
BALANCES, June 30, 2018	35,317,520	$ 35,317	$ 316,176,333	$ (203,012,934)	$ 74,496	14,169	$ (256,226)	$ 113,016,986
Exercise of options to purchase common stock	206,810	207	2,072,387	—	—	—	—	2,072,594
Share-based compensation expense	—	—	1,866,604	—	—	—	—	1,866,604
Foreign Currency Translation	—	—	—		(54,325)	—	—	(54,325)
Net loss	—	—	—	(97,166)	—	—	—	(97,166)
BALANCES, September 30, 2018	35,524,330	$ 35,524	$ 320,115,324	$ (203,110,100)	$ 20,171	14,169	$ (256,226)	$ 116,804,693

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,016,187)	$ (7,118,622)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Provision for loss/(gains) on accounts receivable	104,700	(15,300)
Loss on disposal of equipment	138,106	104,769
Share-based compensation	5,706,580	4,170,409
Inventory obsolescence	104,624	69,912
Depreciation and amortization	11,707,422	10,418,274
Amortization of deferred financing costs and loan discount	125,303	86,327
Changes in operating assets and liabilities:		
Accounts receivable	(7,278,751)	(393,394)
Inventories	(4,094,386)	1,339,371
Prepaid expenses and other current assets	(10,650,214)	(481,201)
Operating lease right of use	125,711	—
Other assets	(608,060)	(118,675)
Accounts payable	3,742,265	1,190,993
Accrued expenses	10,396,504	(697,873)
Other lease liabilities	(17,018)	(23,243)
Net cash flows provided by operating activities	3,486,599	8,531,747
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property, plant and equipment, software and deposits on equipment	(40,738,346)	(12,681,600)
Net cash flows used in investing activities	(40,738,346)	(12,681,600)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options to purchase common stock	3,841,918	3,071,883
Tax withholdings related to net shares settlements of restricted stock units	(1,252,953)	(256,226)
Proceeds from borrowings under Credit Facilities	50,620,988	6,000,000
Repayment of borrowings under Credit Facilities	(15,900,000)	(4,000,000)
Financing fees paid in connection with borrowings	(406,859)	—
Net cash flows provided by financing activities	36,903,094	4,815,657
NET CHANGE IN CASH AND CASH EQUIVALENTS	(348,653)	665,804
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,554,388	2,184,259
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,205,735	$ 2,850,063
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 521,688	$ 164,202
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Property, plant and equipment purchases in accounts payable	$ 5,781,915	$ 572,465

See accompanying notes to the unaudited consolidated financial statements.

Note 1 – Nature of the Business and Summary of Significant Accounting Policies:

Nature of the Business – Freshpet, Inc. (hereafter referred to as "Freshpet" the "Company", "we" or "our"), a Delaware corporation, manufactures and markets natural fresh meals and treats for dogs and cats. The Company's products are distributed throughout the United States and other international markets, into major retail classes including Grocery (including online), Mass and Club, Pet Specialty, and Natural retail.
Basis of Presentation – The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"). The unaudited consolidated financial statements include the accounts of the Company as well as the Company's wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The interim unaudited consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and in accordance with the rules and regulations of the United States Securities and Exchange Commission. In the opinion of management, the interim unaudited financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of September 30, 2019, the results of its operations and changes to stockholders' equity for the three and nine months ended September 30, 2019 and 2018, and its cash flows for the nine months ended September 30, 2019 and 2018. The results for the three and nine months ended September 30, 2019 are not necessarily indicative of results to be expected for the year ending December 31, 2019, or any other interim periods, or any future year or period. Certain amounts that appear in this report may not add up because of differences due to rounding.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in Item 8 of Part II, "Financial Statements and Supplementary Data," of our Annual Report on Form 10-K for the year ended December 31, 2018.

Estimates and Uncertainties – The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results, as determined at a later date, could differ from those estimates.

Restricted Stock Tax Withholdings – To meet payroll tax withholdings obligations arising from the vesting of restricted share units, the Company withheld 31,734 shares totaling $1.3 million, for the nine month period ended September 30, 2019. Shares of common stock withheld for tax withholdings do not reduce the Company's total share repurchase authority.

Debt Issuance Cost – During the nine months ended September 30, 2019 the Company incurred $1.1 million of fees associated with the debt modification, of which $0.7 million were paid to the creditor. Further, the Company noted that $0.7 million of the fees were related to the Draw Term Loan with the remaining balance relating to the Revolving Loan Facility. The Company's policy is to record the debt issuance cost related to the Draw Term Loan, net of debt, for the portion of the Draw Term Loan that is outstanding, with the remaining amount recorded within assets. As of September 30, 2019 there was less than $0.2 million of debt issuance cost that were recorded as net of our debt outstanding. In addition, there was $0.7 million of debt issuance cost that were recorded to other assets, and $0.2 recorded to other current assets.

The Company amortizes debt issuance costs categorized as assets on a straight-line basis over the term of the loan, and amortizes the debt issuance costs that are categorized net of debt using the effective interest method, over the term of the loan.

Note 2 – Recently Issued Accounting Standards:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic

840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. In July 2018, the FASB issued ASU 2018-11, “Leases (ASC 842): Targeted Improvements,” which provides companies an optional adoption method to ASU 2016-02 whereby a company does not have to adjust comparative period financial statements for the new standard.

The reported results as of September 30, 2019 reflect the application of ASC 842, while the comparative information has not been restated and continues to be reported under the related lease accounting standards in effect for those periods. The adoption of this update represents a change in accounting principle and resulted in the recognition of right-of-use ("ROU") assets and operating lease liabilities. We elected the package of practical expedients, which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs incurred. We also elected the practical expedient to combine lease and non-lease components when determining the ROU asset and lease liability, as well as the practical expedient to exclude leases with an initial term of 12 months or less. The primary effect of adopting this standard relates to the recognition of our operating leases on our Consolidated Balance Sheets (Unaudited) and providing additional disclosures about our leasing activities.

The Company is a lessee in several noncancellable operating leases, primarily for office and warehouse space, as well as office equipment.

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a ROU asset and a lease liability at the lease commencement date. The operating lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

Key estimates and judgments include how the Company determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Company cannot determine the interest rate implicit in the lease because it does not have access to the lessor’s estimated residual value or the amount of the lessor’s deferred initial direct costs. Therefore, at the date of adoption, we used our incremental borrowing rate based on the information available at January 1, 2019.

- The lease term for all of the Company’s leases includes the noncancellable period of the lease plus any additional periods covered by either a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise.

- Lease payments included in the measurement of the lease liability comprise of fixed payments based on the terms of the lease. Certain arrangements have free rent periods or escalating rent payment provisions. We recognize rent expense on a straight-line basis over the lease term, including any periods of free rent.

ROU assets are initially and subsequently measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

The ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

ROU assets for operating leases are periodically reviewed for impairment losses. The Company uses the long-lived assets impairment guidance in “ASC Subtopic 360-10, Property, Plant, and Equipment – Overall”, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Company monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero.

Operating lease ROU assets are presented as operating lease right of use assets on the consolidated balance sheet. The current portion of operating lease liabilities and the long-term portion are presented separately as current and long term operating lease liabilities on the consolidated balance sheet.

Note 3 – Inventories:

	September 30, 2019	December 31, 2018
Raw Materials and Work in Process	$ 3,932,131	$ 2,784,233
Packaging Components Material	1,394,532	1,138,091
Finished Goods	8,006,604	5,442,338
	13,333,267	9,364,662
Reserve for Obsolete Inventory	(26,273)	(47,430)
	$ 13,306,994	$ 9,317,232

Note 4 – Property, Plant and Equipment:

	September 30, 2019	December 31, 2018
Refrigeration Equipment	$ 95,558,455	$ 79,567,389
Machinery and Equipment	54,140,430	51,800,479
Building, Land, and Improvements	25,621,495	25,606,013
Furniture and Office Equipment	5,457,585	4,884,945
Leasehold Improvements	412,979	393,770
Automotive Equipment	319,496	319,496
Construction in Progress	31,167,993	4,769,268
	212,678,433	167,341,360
Less: Accumulated Depreciation	(75,989,886)	(65,247,112)
	$ 136,688,547	$ 102,094,248

Depreciation expense related to property, plant and equipment totaled $3,975,822 and $11,462,514 for the three and nine months ended September 30, 2019, respectively, of which $1,598,843 and $4,753,623 was recorded to cost of goods sold for the three and nine months ended September 30, 2019, respectively, with the remainder of depreciation and amortization expense recorded to selling, general and administrative expense. Due to the continued growth of Freshpet’s sales, the Company has undertaken a capital expansion project at its Freshpet Kitchens manufacturing facility to expand plant capacity and increase distribution. The Company invested $21.0 million in the Freshpet Kitchens 2.0 project and other expansion projects during the first nine months of 2019.

Depreciation expense related to property, plant and equipment totaled $3,549,460 and $10,208,173 for the three and nine ended September 30, 2018, respectively, of which $1,579,278 and $4,568,607 was recorded to cost of goods sold for the three and nine months ended September 30, 2018, respectively, with the remainder of depreciation and amortization expense recorded to selling, general and administrative expense.

Note 5 – Accrued Expenses:

	September 30, 2019	December 31, 2018
Legal Contingency (a)	10,253,122	—
Accrued Compensation and Employee Related Costs	4,046,397	5,276,552
Accrued Fridge Cost	1,223,623	1,401,762
Accrued Customer Consideration	1,087,810	650,567
Accrued Freight	795,753	405,733
Accrued Production Expenses	607,010	287,913
Accrued Marketing	550,320	551,681
Other Accrued Expenses	883,021	476,343
	$ 19,447,055	$ 9,050,551

(a) See Note 11 for additional information.

Note 6 – Debt:

On May 15, 2019, the Company entered into the Fourth Amended and Restated Loan and Security Agreement (as amended, the “New Loan Agreement”), which amended and restated in full the Company’s Third Amended and Restated Loan and Security Agreement, dated as of September 21, 2017. The New Loan Agreement provides for a $90 million senior secured credit facility (the “New Credit Facility”), encompassing a $55.0 million delayed draw term loan facility (the “Draw Facility”) and a $35.0 million revolving loan facility (the “Revolving Loan Facility”). The Company will have the ability to increase the New Credit Facility by up to an additional $75.0 million, subject to certain conditions.

The New Credit Facility will mature on May 15, 2024 and borrowings thereunder will bear interest at variable rates depending on the Company’s election, either at a base rate or at LIBOR, in each case, plus an applicable margin. Subject to the Company’s leverage ratio, the applicable margin will vary between 0.50% and 1.00% for base rate loans and 1.50% and 2.00% for LIBOR loans. Upon closing the New Credit Facility, the Company borrowed $15.0 million under the Revolving Loan Facility, which left $20.0 million of availability. The Company has the option to borrow term loans under the Draw Facility (“Draw Term Loans”) until May 15, 2021, subject to certain conditions. Commencing on June 30, 2021, the amount of any outstanding Draw Term Loans shall be repayable in equal consecutive quarterly installments equal to 1/28th of the outstanding Draw Term Loans and the remainder shall be due and payable on May 15, 2024.

Borrowings under the New Credit Facility are secured by substantially all of the Company’s and certain of its subsidiaries’ assets. The New Loan Agreement requires compliance with various covenants customary for agreements of this type, including financial covenants and negative covenants that limit, among other things, the Company’s ability to incur additional debt, create or incur liens, engage in mergers or consolidations, sell, transfer or otherwise dispose of assets, make voluntary prepayments to subordinated debt, permit a change of control, pay dividends or distributions, make investments, and enter into certain transactions with affiliates. The New Loan Agreement also includes events of default customary for agreements of this type.

Net borrowings under our credit facilities totaled $35.4 million at September 30, 2019, of which $18.8 million net of unamortized debt issuance cost of $0.2 million, related to the Draw Term Loans and $16.6 million related to the Revolving Loan Facility. There was no debt outstanding as of December 31, 2018. Interest expense and fees totaled $0.3 million and $0.7 for the three and nine months ended September 30, 2019, respectively, and $0.1 million and $0.3 million for the three and nine months ended September 30, 2018, respectively.

The Company incurred amortization of debt issuance cost of $0.1 million and $0.2 million for the three and nine months ended September 30, 2019, respectively. During 2018 the Company incurred amortization of debt issuance cost of $0.3 million. Amortization of debt issuance cost is recorded as interest expense. In addition, the Company incurred $1.1 million of debt issuance cost upon execution of the New Credit Facility. As of September 30, 2019, $0.7 million is presented within other assets and $0.4 million is presented net of the Draw Term Loan.

Note 7– Leases:

We have various noncancellable lease agreements for office and warehouse space, as well as office equipment, with original remaining lease terms of two years to nine years, some of which include an option to extend the lease term for up to five years. Because the Company is not reasonably certain to exercise these renewal options, the options are not considered in determining the lease term, and associated potential option payments are excluded from lease payments. The Company's leases generally do not include termination options for either party to the lease or restrictive financial or other covenants.

Weighted-average remaining lease term (in years) and discount rate related to operating leases were as follows:

Weighted-average remaining lease term	6.46
Weighted-average discount rate	6.14%

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the date of adoption to determine the present value of lease payments.

Maturities of lease liabilities under noncancellable operating leases as of September 30, 2019 were as follows:

	September 30 ,2019
2019 (a)	$ 402,448
2020	1,723,951
2021	1,768,626
2022	1,763,787
2023	1,802,007
2024 and beyond	4,297,218
Total lease payments	11,758,037
Less: Imputed interest	(1,915,560)
Present value of lease liabilities	$ 9,842,477

(a) Excluding the nine months ended September 30, 2019.

As of December 31, 2018 minimum lease payments under noncancellable operating leases by period were expected to be:

	December 31, 2018
2019	$ 1,475,761
2020	1,626,179
2021	1,671,003
2022	1,664,510
2023	1,700,539
2024 and thereafter	4,246,015
	$ 12,384,007

A summary of rent expense for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Rent expense	$ 515,565	$ 480,349

Supplemental cash flow information and non-cash activity relating to operating leases are as follows:

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Operating cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities	$ 395,408	$ 1,022,188

Note 8 – Equity Incentive Plans:

Total compensation cost for share-based payments recognized for the three months ended September 30, 2019 and 2018 is $3,129,648 and $1,866,604, respectively. Total compensation cost for share-based payments recognized for the nine months ended September 30, 2019 and 2018 is $5,870,657 and $4,260,638, respectively.

2010 Stock Plan—The outstanding options are time-based (vest between two and four years). At September 30, 2019, there were zero shares available for grant as the 2010 Plan is frozen. The total number of unexercised options for the 2010 Plan is 289,530.

2014 Omnibus Incentive Plan—In November 2014, the Company approved the 2014 Omnibus Incentive Plan (the “2014 Plan”). Under the 2014 Plan, 3,979,200 shares of common stock may be issued or used for reference purposes as awards granted. These awards may be in the form of stock options, stock appreciation rights, restricted stock, as well as other stock-based and cash-based awards. At September 30, 2019, the awards granted were either time-based, performance-based (vest when performance targets are met, as defined in the stock option grant agreement), or restricted stock units (employee RSUs vest over three years or cliff vest (as defined in the restricted stock agreement) and non-employee director RSUs vest over one year). The total number of unexercised options and RSUs for the 2014 Plan is 1,547,505.

At September 30, 2019, there were 1,665,120 shares of common stock available to be issued or used for reference purposes under the 2014 Plan.

NASDAQ Marketplace Rules Inducement Award—During fiscal year 2016, share-based awards were granted to the Company’s Chief Executive Officer as an inducement under the NASDAQ Marketplace Rules, and therefore outside of any Plan. Under the terms of the agreement, the grant is governed as if issued under the 2014 Omnibus Plan. As of

September 30, 2019, the awards granted were time-based (cliff vest over four years) and performance-based (vest when performance targets are met, as defined in the stock option grant agreement).

Service Period Stock Options

The following table includes activity related to outstanding service period stock options during the nine months ended September 30, 2019.

Service Period Stock Options	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2018	1,793,981	$ 9.84
Granted	23,536	42.29
Exercised	(417,962)	8.40
Forfeited	(1,191)	9.64
Outstanding at September 30, 2019	1,398,364	$ 10.82

Performance-Vested Stock Options

The following table includes activity related to outstanding performance-vested stock options during the nine months ended September 30, 2019.

Performance Based Options	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2018	1,275,746	$ 13.62
Granted	9,254	42.29
Exercised	(35,447)	9.98
Forfeited	(39,253)	9.05
Outstanding at September 30, 2019	1,210,300	$ 14.09

As of September 30, 2019, 1,151,051 performance-vested stock options at a weighted average exercise price of $14.13 have performance metrics that are probable of achievement. During the three months ended September 30, 2019, the Company assessed that 295,936 performance-vested stock options became probable of achievement resulting in additional share-based compensation cost true-up of $1.6 million which was recorded to SG&A.

Restricted Stock Units

The following table includes activity related to outstanding restricted stock units during the nine months ended September 30, 2019.

Restricted Stock Units	Shares	Weighted-Average Grant-Date Fair Value Per Unit
Outstanding at December 31, 2018	271,979	$ 19.07
Granted	77,609	41.82
Issued upon vesting	(122,392)	17.57
Forfeited	(2,528)	27.42
Outstanding at September 30, 2019	224,668	$ 27.65

Note 9 – Earnings (Loss) Per Share:

Basic net earnings (loss) per share of common stock is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted net earnings (loss) per share of common stock is computed by giving effect to all potentially dilutive securities.

The following table includes adjustments between net income and net income attributable to common stockholders for the three months ended September 30, 2019.

		Three Months Ended September 30, 2019
Net Income (Loss) Attributable to Common Stockholders		3,067,163
Weighted Average Common Shares Outstanding, Basic		36,079,935
Dilutive Effect of Share-Based Awards:		
Service Period Stock Options		1,037,873
Restricted Stock Units		152,661
Performance		19,009
Weighted Average Common Shares Outstanding, Diluted		37,289,478
Basic Earnings per Share	$	0.09
Diluted Earnings per Share	$	0.08

The potentially dilutive securities are as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2018	2019	2018
Service Period Stock Options	1,932,268	1,535,762	2,009,372
Restricted Stock Units	208,402	234,091	197,492
Performance Stock Options	13,283	24,246	13,283
Total	2,153,952	1,794,099	2,220,147

For the nine months ended September 30, 2019 and for the three and nine months ended September 30, 2018, diluted net loss per share of common stock is the same as basic net loss per share of common stock, due to the fact that potentially dilutive securities would have an antidilutive effect as the Company incurred a net loss during such periods.

Note 10 – Concentrations:

Concentration of Credit Risk—The Company maintains its cash balances in financial institutions that are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to $250,000 each. At times, such balances may be in excess of the FDIC insurance limit.

Net Sales by Class of Retailer —The following table sets forth net sales by class of retailer:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Grocery (including Online), Mass and Club	$ 54,712,007	$ 41,882,395	$ 150,340,440	$ 115,874,906
Pet Specialty and Natural	10,553,894	8,917,206	29,769,842	$ 25,719,252
Net Sales	$ 65,265,901	$ 50,799,601	$ 180,110,282	$ 141,594,158

Note 11 – Commitments and Contingencies:

A securities lawsuit, Curran v. Freshpet, Inc. et al, Docket No. 2:16-cv-02263, was instituted on April 21, 2016 in the United States District Court for the District of New Jersey against the Company and certain of the Company's current and former executive officers and directors on behalf of certain purchasers of our common stock. The plaintiffs sought to recover damages for investors under the federal securities laws. On October 3, 2019, the parties filed with the District Court a motion for preliminary approval of settlement that attached the parties' stipulation of settlement and a proposed order. As of September 30, 2019, the Company accrued for an estimated probable loss of $10.3 million, which represents the proposed settlement and accrued legal fees. The Company concluded that the insurance recovery is probable and recorded a gain contingency of $10.3 within other current assets.

Note 12 – Subsequent Events:

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued.

With continuing expansion of manufacturing capacity, the Company's borrowings under the new credit facilities increased an additional $5.9 million in October 2019.

On October 30, 2019, the Company entered into a First Amendment (the "First Amendment") to the New Loan Agreement. The First Amendment reflects (i) an increase in the limit for the covenant related to Maximum Capital Expenditures (as defined in the New Loan Agreement) for fiscal year 2019 and (ii) a new provision regarding the treatment of certain supported "qualified financial contracts," which include certain swap contracts.

Based upon further evaluation, the Company did not identify any additional recognized or unrecognized subsequent events that have required adjustment or disclosure in the financial statements.

Item 2. Management’s Discussion and Analysis of Financial Conditions and Results of Operations

The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K.

In addition to historical information, this discussion and analysis contains forward-looking statements based on current expectations that involve risks, uncertainties and assumptions, such as our plans, objectives, expectations, and intentions set forth under the sections entitled "Forward-Looking Statements" in this report and "Risk Factors" in our Annual Report on Form 10-K. Our actual results and the timing of events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section entitled "Risk Factors" in our Annual Report on Form 10-K.

Overview

We started Freshpet with a single-minded mission to bring the power of real, fresh food to our dogs and cats. We were inspired by the rapidly growing view among pet owners that their dogs and cats are a part of their family, leading them to demand healthier pet food choices. Since inception of the company in 2006, we have created a comprehensive business model to deliver wholesome pet food that pet parents can trust, and in the process we believe we have become one of the fastest growing pet food companies in North America. Our business model is difficult for others to replicate and we see significant opportunity for future growth by leveraging the unique elements of our business, including our brand, our product know-how, our Freshpet Kitchens, our refrigerated distribution, our Freshpet Fridge and our culture.

Recent Developments

Freshpet Kitchens Expansion

Due to the continued growth of the Company’s fresh pet food sales, the Company has plans to continue expanding its manufacturing capacity. The Company converted three of its four manufacturing lines from five-day production to seven-day production, with plans to fully convert the fourth line to seven-day production by the first quarter of 2020. To date, the conversion to seven-day production has added more than 140 employees to the Freshpet team with an additional 30 employees to be added in the fourth quarter of 2019. Additionally the Company is in the process of building a 90,000 square-foot addition to our manufacturing location. The $100 million strategic capital investment is expected to support Freshpet’s growth in the United States, Canada and Europe by creating total capacity for approximately $540 million in net sales from the facility. The facility “Freshpet Kitchens 2.0” will make greater use of automation to improve quality, safety and reduce costs. Production start-up is slated for the second half of 2020. During the first three quarters of 2019, we invested $21.0 million of capital for the Freshpet Kitchens 2.0 project and other expansion projects and have spent $22.9 million on the projects to date.

Components of our Operating Results

Net Sales

Our net sales are derived from the sale of pet food to our customers, who purchase either directly from us or through third-party distributors. Our products are sold to consumers through a fast-growing network of company-owned branded refrigerators, known as Freshpet Fridges, located in our customers’ stores. We continue to roll out Freshpet Fridges at leading retailers across North America and parts of Europe and have installed Freshpet Fridges in over 20,700 retail stores as of September 30, 2019. Our products are sold under the Freshpet brand name with ingredients, packaging and labeling customized by class of retail. Sales are recorded net of discounts, slotting, returns and promotional allowances.

Our net sales growth is driven by the following key factors:

- Increasing sales velocity from the average Freshpet Fridge due to increasing awareness, trial and adoption of Freshpet products and innovation. Our investments in marketing and advertising help to drive awareness and trial at each point of sale.
- Increased penetration of Freshpet Fridge locations in major classes of retail, including Grocery, Mass, Club, Pet Specialty, and Natural. The impact of new Freshpet Fridge installations on our net sales varies by retail

class and depends on numerous factors including store traffic, refrigerator size, placement within the store, and proximity to other stores that carry our products.

- Consumer trends including growing pet ownership, pet humanization and a focus on health and wellness.

We believe that as a result of the above key factors, we will continue to penetrate the pet food marketplace and increase our share of the pet food category.

Gross Profit

Our gross profit is net of costs of goods sold, which include the costs of product manufacturing, product ingredients, packaging materials and inbound freight.

Our gross profit margins are also impacted by the cost of ingredients, packaging materials, and labor and overhead and share based compensation related to direct labor and overhead. We expect to mitigate any adverse movement in input costs through a combination of cost management and price increases.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of the following:

Outbound freight. We use a third-party logistics provider for outbound freight that ships directly to retailers as well as third-party distributors.

Marketing & advertising. Our marketing and advertising expenses primarily consist of national television media, digital marketing, social media and grass roots marketing to drive brand awareness. These expenses may vary from quarter to quarter depending on the timing of our marketing and advertising campaigns. Our Feed the Growth initiative will focus on growing the business through increased marketing investments.

Freshpet Fridge operating costs. Freshpet Fridge operating costs consist of repair costs and depreciation. The purchase and installation costs for new Freshpet Fridges are capitalized and depreciated over the estimated useful life. All new refrigerators are covered by a manufacturer warranty for three years. We subsequently incur maintenance and freight costs for repairs and refurbishments handled by third-party service providers.

Research & development. Research and development costs consist of expenses to develop and test new products. The costs are expensed as incurred.

Brokerage. We use third-party brokers to assist with monitoring our products at the point-of-sale as well as representing us at headquarters for various customers. These brokers visit our retail customers’ store locations to ensure items are appropriately stocked and maintained.

Share based compensation. We account for all share-based compensation payments issued to employees, directors and non-employees using a fair value method. Accordingly, share-based compensation expense is measured based on the estimated fair value of the awards on the grant date. We recognize compensation expense for the portion of the award that is ultimately expected to vest over the period during which the recipient renders the required services to us using the straight-line single option method.

Other general & administrative costs. Other general and administrative costs include non-plant personnel salaries and benefits, as well as corporate general & administrative costs.

Income Taxes

We had federal net operating loss ("NOL") carry forwards of approximately $183.3 million as of December 31, 2018, of which, approximately $175.0 million, generated in 2017 and prior, will expire between 2025 and 2037. The NOL generated in 2018, of approximately $8.3 million, will have an indefinite carryforward. We may be subject to certain limitations in our annual utilization of NOL carry forwards to off-set future taxable income pursuant to Section 382 of the Internal Revenue Code, which could result in NOLs expiring unused. At December 31, 2018, we had approximately $147.2 million of state NOLs, which expire between 2019 and 2038. At December 31, 2018, we had a full valuation allowance against our net deferred tax assets as the realization of such assets was not considered more likely than not.

Consolidated Statements of Operations and Comprehensive Income (Loss)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
	(Dollars in thousands)				(Dollars in thousands)			
Net sales	$ 65,266	100%	$ 50,799	100%	$ 180,110	100%	$ 141,594	100%
Cost of goods sold	34,560	53	27,184	54	96,163	53	74,972	53
Gross profit	30,706	47	23,615	46	83,947	47	66,622	47
Selling, general and administrative expenses	27,171	42	23,572	46	89,076	49	73,398	52
Income (loss) from operations	3,535	5	43	0	(5,129)	(3)	(6,776)	(5)
Other income/(expenses), net	(139)	(0)	(27)	(0)	(141)	(0)	(24)	(0)
Interest expense	(310)	(0)	(94)	(0)	(689)	(0)	(261)	(0)
Income (loss) before income taxes	3,086	5	(78)	(0)	(5,959)	(3)	(7,061)	(5)
Income tax expense	19	0	19	0	57	0	57	0
Net income (loss)	$ 3,067	5%	$ (97)	(0)%	$ (6,016)	(3)%	$ (7,118)	(5)%

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

Net Sales

The following table sets forth net sales by class of retailer:

	Three Months Ended September 30,					
	2019			2018		
	Amount	% of Net Sales	Store Count	Amount	% of Net Sales	Store Count
	(Dollars in thousands)					
Grocery (including Online), Mass and Club (1)	$ 54,712	84%	15,498	$ 41,882	82%	14,030
Pet Specialty and Natural (2)	10,553	16	5,281	8,917	18	5,077
Net Sales	65,266	100%	20,779	$ 50,799	100%	19,107

(1) Stores at September 30, 2019 and September 30, 2018 consisted of 10,856 and 9,880 Grocery and 4,642 and 4,150 Mass and Club, respectively.
(2) Stores at September 30, 2019 and September 30, 2018 consisted of 4,834 and 4,664 Pet Specialty and 447 and 413 Natural, respectively.

Net sales increased $14.5 million, or 28.5%, to $65.3 million for the three months ended September 30, 2019 as compared to the same period in the prior year. The $14.5 million increase in net sales was driven by growth of $12.8 million in our Grocery (including Online), Mass, and Club refrigerated channel and $1.7 million in our Pet Specialty and Natural refrigerated channel. Our Freshpet Fridge store locations grew by 8.8% to 20,779 as of September 30, 2019 compared to 19,107 as of September 30, 2018.

Gross Profit

Gross profit increased $7.1 million, or 30.0%, to $30.7 million for the three months ended September 30, 2019 as compared to the same period in the prior year. The increase in gross profit was primarily driven by higher net sales.

Our gross profit margin of 47.0% for the three months ended September 30, 2019 increased 50 basis points compared to the same period in the prior year, due to increases in sales price and shifting selling mix of 150 basis points, and leverage of depreciation expense of 50 basis points, partially offset by commodity inflation and in-bound freight costs of 150 basis points.

Adjusted Gross Profit was $32.5 million and $25.3 million in the three months ended September 30, 2019 and 2018 respectively. Adjusted Gross Profit Margin was 49.8% and 49.7% in the three months ended September 30, 2019 and 2018, respectively. Adjusted Gross Profit excludes $1.6 million of depreciation expense and $0.2 of share-based compensation expense in the three months ended September 30, 2019 and excludes $1.6 million of depreciation expense and $0.1 million of share-based compensation expense in the three months ended September 30, 2018. See "—Non-GAAP Financial Measures" for how we define Adjusted Gross Profit and a reconciliation of Adjusted Gross Profit to Gross Profit, the closest comparable U.S. GAAP measure.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $3.6 million, or 15.3%, to $27.2 million for the three months ended September 30, 2019 as compared to the same period in the prior year. Key components of the dollar increase include higher depreciation and options expense of $1.6 million, higher incremental operating costs of $1.2 million and higher variable cost due to volume of $1.0 million, offset by lower selling expense of $0.2 million. The increased operating expenses were primarily due to new hires, and increased employee incentive and benefit costs.

As a percentage of net sales, selling, general and administrative expenses decreased to 41.6% for the three months ended September 30, 2019 from 46.4% for the three months ended September 30, 2018.

Adjusted SG&A decreased as a percentage of net sales to 31.4% in the three months ended September 30, 2019 as compared to 36.5% of net sales in the three months ended September 30, 2018. The increase of 510 basis points in Adjusted SG&A is a result of 320 basis point gain in SG&A leverage, and 190 basis points leverage gain in media. Since the start of the Company's Feed The Growth Initiative, the Company has gained approximately 590 basis points of leverage on Adjusted SG&A. Adjusted SG&A excludes $2.9 million of non-cash share-based compensation, $2.5 million of depreciation and amortization expense, $1.3 million of launch expense, and $0.1 million of secondary offering expense in the three months ended September 30, 2019 and $2.0 million of depreciation and amortization expense, $1.7 million for share-based compensation expense, $1.0 million of launch expense, $0.1 million of secondary offering expense and $0.1 million in litigation expense in the three months ended September 30, 2018. See "—Non-GAAP Financial Measures" for how we define Adjusted SG&A and a reconciliation of Adjusted SG&A to SG&A, the closest comparable U.S. GAAP measure.

Income from Operations

Income from Operations increased $3.5 million to $3.5 million for the three months ended September 30, 2019 as compared to the same period in the prior year as a result of the factors discussed above.

Interest Expense

Interest expense relating primarily to our credit facilities was $0.3 million for the three months ended September 30, 2019 and $0.1 million in the three months ended September 30, 2018***.*** In connection with the New Credit Facility, the Company accelerated the amortization of $0.1 million of unamortized debt issuance costs related to the prior loan agreement. These costs are included in interest expense in the nine months ended September 30, 2019.

Other Income/(Expenses), net

Other income (expenses), net decreased $0.1 million for the three months ended September 30, 2019 compared to the same period in the prior year.

Net Income (Loss)

Net income increased $3.2 million to $3.1 million for the three months ended September 30, 2019 as compared to loss of $0.1 million for the same period in the prior year as a result of the factors discussed above.

Nine Months Ended September 30, 2019 Compared To Nine Months Ended September 30, 2018

Net Sales

The following table sets forth net sales by class of retailer:

	Nine Months Ended September 30,					
	2019			2018		
	Amount	% of Net Sales	Store Count	Amount	% of Net Sales	Store Count
	(Dollars in thousands)					
Grocery (including Online), Mass and Club (1)	$ 150,340	83%	15,498	$ 115,875	82%	14,030
Pet Specialty and Natural (2)	29,770	17	5,281	25,719	18	5,077
Net Sales	$ 180,110	100%	20,779	$ 141,594	100%	19,107

(1) Stores at September 30, 2019 and September 30, 2018 consisted of 10,856 and 9,880 Grocery and 4,642 and 4,150 Mass and Club, respectively.
(2) Stores at September 30, 2019 and September 30, 2018 consisted of 4,834 and 4,664 Pet Specialty and 447 and 413 Natural, respectively.

Net sales increased $38.5 million, or 27.2%, to $180.1 million for the nine months ended September 30, 2019 as compared to the same period in the prior year. The $38.5 million increase in net sales was driven by growth of $34.5 million in our Grocery (including Online), Mass, and Club refrigerated channel and $4.0 million in our Pet Specialty and Natural refrigerated channel. Our Freshpet Fridge store locations grew by 8.8% to 20,779 as of September 30, 2019 compared to 19,107 as of September 30, 2018.

Gross Profit

Gross profit increased $17.3 million, or 26.0%, to $83.9 million for the nine months ended September 30, 2019 as compared to the same period in the prior year. The increase in gross profit was driven by higher net sales.

Our gross profit margin of 46.6% for the nine months ended September 30, 2019 decreased 50 basis points compared to the same period in the prior year due to scrapping and incremental processing costs of 100 basis points, commodity inflation and in-bound freight costs of 130 basis points, unabsorbed labor in advance of a new seven day operation of 20 basis points, partially offset by increases in sales price and shifting selling mix of 130 basis points, and leverage of depreciation expense of 60 basis points, and increased production efficiencies of 10 basis points.

Adjusted Gross Profit was $89.2 million and $71.4 million in the nine months ended September 30, 2019 and 2018, respectively. Adjusted Gross Profit Margin was 49.5% and 50.4% in the nine months ended September 30, 2019 and 2018, respectively. Adjusted Gross Profit excludes $4.8 million of depreciation expense and $0.5 million non-cash share-based compensation expense in the nine months ended September 30, 2019 and excludes $4.6 million of depreciation expense and $0.2 million of non-cash share-based compensation expense in the nine months ended September 30, 2018. See “—Non-GAAP Financial Measures” for how we define Adjusted Gross Profit and a reconciliation of Adjusted Gross Profit to Gross Profit, the closest comparable U.S. GAAP measure.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $15.7 million, or 21.4%, to $89.1 million for the nine months ended September 30, 2019 as compared to the same period in the prior year. Key components of the dollar increase include higher media spend of $8.0 million, higher variable cost due to volume of $3.4 million, higher incremental operating expense of $2.8 million, and higher depreciation and option expense of $2.3 million offset by lower selling expense of $0.8 million. The increased operating expenses were primarily due to new hires and increased employee incentive and benefit costs.

As a percentage of net sales, selling, general and administrative expenses decreased to 49.5% for the nine months ended September 30, 2019 from 51.8% for the nine months ended September 30, 2018. Adjusted SG&A decreased as a percentage of net sales to 40.7% in the nine months ended September 30, 2019 as compared to 42.7% of net sales in the nine months ended September 30, 2018. Adjusted SG&A excludes $7.0 million of depreciation expense, $5.2 million of non-cash share-based compensation expense, $3.3 million launch expense and $0.3 million of secondary offering expenses in the nine months ended September 30, 2019 and excludes $5.9 million of depreciation expense, $3.9 million of share-based compensation expense, $2.7 million of launch expense, $0.3 million of litigation expense and $0.1 million of secondary offering expense in the nine months ended September 30, 2018. See "—Non-GAAP Financial Measures" for how we define Adjusted SG&A and a reconciliation of Adjusted SG&A to SG&A, the closest comparable U.S. GAAP measure.

Loss from Operations

Loss from Operations decreased $1.6 million to $5.1 million for the nine months ended September 30, 2019 as compared to the same period in the prior year as a result of the factors discussed above.

Interest Expense

Interest expense relating primarily to our credit facilities was $0.7 million and $0.3 million in the nine months ended September 30, 2019 and 2018, respectively. In connection with the New Credit Facility, the Company accelerated the amortization of $0.1 million of unamortized debt issuance costs related to the prior loan agreement. These costs are included in Interest Expense in the nine months ended September 30, 2019.

Other Income/(Expenses), net

Other income (expenses), net decreased $0.1 million for the nine months ended September 30, 2019 as compared to the same period in the prior year.

Net Loss

Net loss decreased $1.1 million to $6.0 million for the nine months ended September 30, 2019 as compared to net loss of $7.1 million for the same period in the prior year as a result of the factors discussed above.

Non-GAAP Financial Measures

Freshpet uses the following non-GAAP financial measures in its financial communications. These non-GAAP financial measures should be considered as supplements to the GAAP reported measures, should not be considered replacements for, or superior to, the GAAP measures and may not be comparable to similarly named measures used by other companies.

- Adjusted Gross Profit
- Adjusted Gross Profit as a percentage of net sales
- Adjusted SG&A expenses
- Adjusted SG&A expenses as a percentage of net sales
- EBITDA
- Adjusted EBITDA
- Adjusted EBITDA as a percentage of net sales

Such financial measures are not financial measures prepared in accordance with U.S. GAAP. We define Adjusted Gross Profit as Gross Profit before non-cash depreciation expense and non-cash share-based compensation. We define Adjusted SG&A as SG&A expenses before depreciation and amortization expense, non-cash share-based compensation, launch expense, fees related to secondary offerings, and litigation expense. EBITDA represents net income (loss) plus interest expense, income tax expense, and depreciation and amortization. Adjusted EBITDA represents EBITDA plus gain (loss) on disposal of equipment, non-cash share-based compensation, launch expenses, fees related to secondary offerings, and litigation expense.

We believe that each of these non-GAAP financial measures provide additional metrics to evaluate our operations and, when considered with both our U.S. GAAP results and the reconciliation to the closest comparable U.S. GAAP measures, provide a more complete understanding of our business than could be obtained absent this disclosure. We use the non-GAAP financial measures, together with U.S. GAAP financial measures, such as net sales, gross profit margins and cash flow from operations, to assess our historical and prospective operating performance, to provide meaningful comparisons of operating performance across periods, to enhance our understanding of our operating performance and to compare our performance to that of our peers and competitors.

Adjusted EBITDA is also an important component of internal budgeting and setting management compensation.

The non-GAAP financial measures are presented here because we believe they are useful to investors in assessing the operating performance of our business without the effect of non-cash items, and other items as detailed below. The non-GAAP financial measures should not be considered in isolation or as alternatives to net income (loss), income (loss) from operations or any other measure of financial performance calculated and prescribed in accordance with U.S. GAAP. Neither EBITDA nor Adjusted EBITDA should be considered a measure of discretionary cash available to us to invest in the growth of our business. Our non-GAAP financial measures may not be comparable to similarly titled measures in other organizations because other organizations may not calculate non-GAAP financial measures in the same manner as we do.

Our presentation of the non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by the expenses that are excluded from that term or by unusual or non-recurring items. We recognize that the non-GAAP financial measures have limitations as analytical financial measures. For example, the non-GAAP financial measures do not reflect:

- our capital expenditures or future requirements for capital expenditures;
- the interest expense, or the cash requirements necessary to service interest expense or principal payments, associated with indebtedness;
- depreciation and amortization, which are non-cash charges, although the assets being depreciated and amortized will likely have to be replaced in the future, nor any cash requirements for such replacements; and
- changes in or cash requirements for our working capital needs.

Additionally, Adjusted EBITDA excludes (i) non-cash share-based compensation expense, which is and will remain a key element of our overall long-term incentive compensation package, and (ii) certain costs essential to our sales growth and strategy, including an allowance for marketing expenses for each new store added to our network and non-capitalizable freight costs associated with Freshpet Fridge replacements. Adjusted EBITDA also excludes certain cash charges resulting from matters we consider not to be indicative of our ongoing operations. Other companies in our industry may calculate the non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

The following table provides a reconciliation of EBITDA and Adjusted EBITDA to net income (loss), the most directly comparable financial measure presented in accordance with U.S. GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)		(Dollars in thousands)	
Net income (loss)	$ 3,067	$ (97)	$ (6,016)	$ (7,119)
Depreciation and amortization	4,064	3,623	11,707	10,419
Interest expense	310	94	689	261
Income tax expense	19	19	57	57
EBITDA	**$ 7,460**	**$ 3,639**	**$ 6,437**	**$ 3,619**
(Gain) loss on disposal of equipment	137	29	138	105
Non-cash share-based compensation	3,076	1,776	5,706	4,170
Launch expense (a)	1,264	1,015	3,335	2,677
Secondary offering expenses (b)	50	137	349	137
Litigation expense (c)	—	120	—	348
Adjusted EBITDA	**$ 11,987**	**$ 6,716**	**$ 15,965**	**$ 11,056**
Adjusted EBITDA as a % of Net Sales	18.4%	13.2%	8.9%	7.8%

(a) Represents new store marketing allowance of $1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
(b) Represents fees associated with secondary public offerings of our common stock.
(c) Represents fees associated with two securities lawsuits.

The following table provides a reconciliation of Adjusted Gross Profit to Gross Profit, the most directly comparable financial measure presented in accordance with U.S. GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)		(Dollars in thousands)	
Gross Profit	$ 30,706	$ 23,616	$ 83,948	$ 66,622
Depreciation expense (a)	1,599	1,579	4,754	$ 4,569
Non-cash share-based compensation (b)	174	71	508	$ 224
Adjusted Gross Profit	**$ 32,479**	**$ 25,266**	**$ 89,210**	**$ 71,415**
Adjusted Gross Profit as a % of Net Sales	49.8%	49.7%	49.5%	50.4%

(a) Represents depreciation and amortization expense included in cost of goods sold.
(b) Represents non-cash share-based compensation expense included in cost of goods sold.

The following table provides a reconciliation of Adjusted SG&A Expenses to SG&A Expenses, the most directly comparable financial measure presented in accordance with U.S. GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(Dollars in thousands)		(Dollars in thousands)	
SG&A expenses	$ 27,171	$ 23,572	$ 89,075	$ 73,398
Depreciation and amortization expense (a)	2,465	2,044	6,953	5,850
Non-cash share-based compensation (b)	2,902	1,706	5,198	3,947
Launch expense (c)	1,264	1,015	3,335	2,677
Secondary offering expenses (d)	50	137	349	137
Litigation expense (e)	—	120	—	348
Adjusted SG&A Expenses	**$ 20,490**	**$ 18,550**	**$ 73,240**	**$ 60,437**
Adjusted SG&A Expenses as a % of Net Sales	31.4%	36.5%	40.7%	42.7%

(a) Represents non-cash depreciation expense included in SG&A.
(b) Represents non-cash share-based compensation expense included in SG&A.
(c) Represents new store marketing allowance of $1,000 for each store added to our distribution network, as well as the non-capitalized freight costs associated with Freshpet Fridge replacements. The expense enhances the overall marketing spend to support our growing distribution network.
(d) Represents fees associated with secondary public offerings of our common stock.
(e) Represents fees associated with two securities lawsuits.

Liquidity and Capital Resources

Developing our business will require significant capital in the future. To meet our capital needs, we expect to rely on our current and future cash flow from operations and our current available borrowing capacity. Our ability to obtain additional funding will be subject to various factors, including general market conditions, our operating performance, the market's perception of our growth potential, lender sentiment and our ability to incur additional debt in compliance with other contractual restrictions, such as financial covenants under our debt agreements.

Additionally, our ability to make payments on, and to refinance, any indebtedness under our credit facilities and to fund any necessary expenditures for our growth will depend on our ability to generate cash in the future. If our business does not achieve the levels of profitability or generate the amount of cash that we anticipate or if we expand faster than anticipated, we may need to seek additional debt or equity financing to operate and expand our business. Future third-party financing may not be available on favorable terms or at all.

Our primary cash needs are for ingredients, purchases and operating expenses, marketing expenses and capital expenditures to procure Freshpet Fridges and expand and improve our manufacturing plant to support our net sales growth. Over the next two years we also expect to invest approximately $100 million in capital expenditures to expand our plant capacity and increase distribution. We believe that cash and cash equivalents, expected cash flow from operations and planned borrowing capacity are adequate to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the foreseeable future. However, our ability to continue to meet these requirements and obligations will depend on, among other things, our ability to achieve anticipated levels of revenue and cash flow from operations and our ability to manage costs and working capital successfully. Additionally, our cash flow generation ability is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations in an amount sufficient to enable us to fund our liquidity needs. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels, or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may seek alternative financing, such as selling additional debt or equity securities, and we cannot assure you that we will be able to do so on favorable terms, if at all. Moreover, if we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity or convertible debt securities, existing stockholders may experience dilution, and such new securities could have rights senior to those of our common stock. These factors may make the timing, amount, terms and conditions of additional financings unattractive. Our inability to raise capital could impede our growth or otherwise require us to forego growth opportunities and could materially adversely affect our business, financial condition and results of operations.

The following table sets forth, for the periods indicated, our working capital:

	September 30, 2019	December 31, 2018
	(Dollars in thousands)	
Cash and cash equivalents	7,206	7,554
Accounts receivable, net of allowance for doubtful accounts	19,501	12,327
Inventories, net	13,307	9,317
Prepaid expenses	1,653	1,078
Other current assets	10,757	682
Accounts payable	(17,840)	(9,166)
Accrued expenses	(19,447)	(9,051)
Current operating lease liabilities	(1,130)	—
Total Working Capital	$ 14,007	$ 12,741

Working capital consists of current assets net of current liabilities. Working capital increased $1.3 million to $14.0 million at September 30, 2019 compared with working capital of $12.7 million at December 31, 2018. The increase was mainly a result of an increase in accounts receivable and inventories, offset by an increase in accounts payable. The increase in accounts receivable and inventories is mainly due to the growing business. The increase in accounts payable was mainly due capex spend of $5.8 million that was within accounts payable as of September 30, 2019. The increase in account receivable and inventory is a result of the growth the Company has experienced during the year.

We normally carry three to four weeks of finished goods inventory. The average duration of our accounts receivable is approximately three to four weeks.

As of September 30, 2019, our capital resources consisted primarily of $7.2 million of cash on hand and $54.4 million available under our credit facilities, of which $2.0 is reserved for two Letters of Credit.

We expect to fund our ongoing operations and obligations with cash and cash equivalents, cash flow from operations and available funds under our credit facilities.

The following table sets forth, for the periods indicated, our beginning balance of cash, net cash flows provided by (or used in) operating, investing and financing activities and our ending balance of cash.

	Nine Months Ended September 30,	
	2019	2018
	(Dollars in thousands)	
Cash at the beginning of period	$ 7,554	$ 2,184
Net cash provided by operating activities	3,487	8,532
Net cash used in investing activities	(40,738)	(12,682)
Net cash provided by financing activities	36,903	4,816
Cash at the end of period	$ 7,206	$ 2,850

Net Cash Provided by Operating Activities

Cash provided by operating activities consists primarily of net income adjusted for certain non-cash items (i.e. provision for loss on receivables, loss on disposal of equipment, change in reserve for inventory obsolescence, depreciation and amortization, amortization of deferred financing costs and loan discount, and share-based compensation).

For the nine months ended September 30, 2019, net cash provided by operating activities of $3.5 million was primarily attributed to:

- $11.9 million of net income, adjusted for reconciling non-cash items, which excludes $17.9 million primarily related to $5.7 million of share-based compensation and $11.7 million of depreciation and amortization.

This was partially offset by:

- $8.4 million increase in working capital mainly due to a $7.3 million increase in accounts receivable and a $4.1 million increase in inventories, $0.6 million of other assets, offset by a $3.7 million increase in accounts payable.

For the nine months ended September 30, 2018, net cash provided by operating activities of $8.5 million was primarily attributed to:

- $7.7 million net income adjusted for reconciling non-cash items, which excludes $14.8 million of non-cash items primarily relating to $4.2 million of share-based compensation and $10.4 million of depreciation and amortization.
- $0.8 million of change in operating assets and liabilities. The increase in liabilities of $0.5 million was mainly a result of result of timing of payments related to compensation and a $3.0 million increase in assets, which was the result of a decrease in accounts receivable, offset by an increase in inventory, prepaid expenses and other current assets.

Net Cash Used in Investing Activities

Net cash used in investing activities of $40.7 million for the nine months ended September 30, 2019, was primarily related to:

- $24.2 million in capital expenditures for Freshpet Kitchens, of which $21.0 million relates to the Freshpet Kitchens and other expansion projects and $3.2 million relates to recurring capital expenditures.
- $16.5 million in capital expenditures relating to investment in fridges and other capital spend.

Net cash used in investing activities of $12.7 million for the nine months ended September 30, 2018, was primarily related to:

- $4.5 million in capital expenditures for Freshpet Kitchens.
- $8.2 million in capital expenditures related to investment in fridges and other capital spend.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $36.9 million for the nine months ended September 30, 2019, attributable to:

- $50.6 million of proceeds from borrowings under our credit facilities.
- $3.8 million cash proceeds from the exercise of stock options.

Primarily offset by:

- $15.9 million repayment of borrowings under credit facilities.
- $1.2 million for tax withholdings related to net share settlements of restricted stock units.
- $0.4 million financing fees paid in connection with borrowings.

Net cash provided by financing activities was $4.8 million for the nine months ended September 30, 2018, attributable to

- $6.0 million proceeds from borrowings under our Credit Facilities offset by repayments of $4.0 million.
- $3.0 million cash proceeds from the exercise of stock options offset by the repurchase of common stock related to employee tax withholdings upon issuance of restricted stock units of $0.2 million.

Indebtedness

For a discussion of our material indebtedness, see Note 6 to our consolidated financial statements included in this report.

Contractual Obligations

There were no material changes to our commitments under contractual obligations, as disclosed in our latest Annual Report Form 10-K.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements or any holdings in variable interest entities.

Critical Accounting Policies and Significant Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the revenue and expenses incurred during the reported periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and share-based compensation. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions.

With the exception of our newly adopted standards around lease accounting, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our latest Annual Report Form 10-K.

Recent Accounting Pronouncements

Recently Adopted Standards:

Leases:

For a discussion of the standard on leases, adopted in the first quarter of 2019, see Note 2 (Recently Issued Accounting Standards) and Note 7 (Leases) to our consolidated financial statements included in this report.

Standards Effective in Future Years:

We consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not listed herein below were assessed and determined to be either not applicable or are expected to have minimal impact to our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Risk

We are sometimes exposed to market risks from changes in interest rates on debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding indebtedness under our credit facilities, which bears interest at variable rates. As of September 30, 2019, we had $35.6 million outstanding under our credit facilities. A change in interest rates of 100 basis points would cause a $0.3 million increase or decrease in annual interest expense.

Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. In many cases, we believe we will be able to address material commodity cost increases by either increasing prices or reducing operating expenses. However, increases in commodity prices, without adjustments to pricing or reduction to operating expenses, could increase our operating costs as a percentage of our net sales.

Foreign Exchange Rates

Fluctuations in the currencies of countries where the Company operates outside the U.S. may have a significant impact on financial results. The Company is exposed to movements in the British pound sterling and Euro. The Statements of Financial Position of non-U.S. business units are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. The percentage of consolidated revenue for both the three and nine months ended September 30, 2019 recognized in Europe was approximately 1%.

The Company may, from time to time enter into forward exchange contracts to reduce the Company's exposure to foreign currency fluctuations of certain assets and liabilities denominated in foreign currencies. Historically, the foreign currency forward contracts have not been designated as hedges and, accordingly, any changes in their fair value are recognized on the Consolidated Statements of Operations and Comprehensive Income (Loss) in Other expenses, net, and carried at their fair value in the Consolidated Balance Sheet with gains reported in prepaid expenses and other current assets and losses reported in accrued expenses. As of September 30, 2019, there were no forward contracts outstanding.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date our disclosure controls and procedures were effective.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

A securities lawsuit, Curran v. Freshpet, Inc. et al, Docket No. 2:16-cv-02263, was instituted on April 21, 2016 in the United States District Court for the District of New Jersey against us and certain of our current and former executive officers and directors on behalf of certain purchasers of our common stock. We were served with a copy of the complaint in June 2016. The plaintiffs sought to recover damages for investors under the federal securities laws. Plaintiffs filed a motion for class certification. Freshpet filed an opposition to the plaintiffs' motion for class certification and requested an evidentiary hearing on the motion. Fact discovery was completed, and expert discovery began. The parties then entered into mediation and settlement discussions. On October 3, 2019, the parties filed with the District Court a motion for preliminary approval of settlement that attached the parties' stipulation of settlement and a proposed order. As of September 30, 2019, the Company accrued for an estimated probable loss of $10.3 million, which represents the proposed settlement and accrued legal fees. The Company believes that insurance recovery for the matter is probable and recorded a gain contingency of $10.3 million within other current assets.

A shareholder derivative lawsuit, Meldon v. Freshpet, Inc. et al, Docket No. 2:18-cv-10166, was instituted on June 5, 2018 in the United States District Court for the District of New Jersey against us and certain of our current and former executive officers and directors on behalf of certain holders of our common stock. We were served with a copy of the complaint in June 2018. The plaintiffs seek to recover damages for investors under the federal securities laws. On June 21, 2018, we were granted a motion to stay the Meldon case. On April 3, 2019, we were granted an extension of the stay pending (i) the close of expert discovery in the Curran action described in the preceding paragraph or (ii) the dismissal with prejudice of the Curran action. The Company believes that the plaintiffs' allegations are without merit and intends to vigorously defend against the claims. Because the Company is in the early stages of litigation, the Company is unable to estimate a reasonably possible range of loss, if any, that may result from this matter.

In addition, we are currently involved in various claims and legal actions that arise in the ordinary course of our business, including claims resulting from employment related matters. None of these claims or proceedings, most of which are covered by insurance, are expected to have a material adverse effect on our business, financial condition, results of operations or cash flows. However, a significant increase in the number of these claims or an increase in amounts owing under successful claims could materially and adversely affect our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 5. Other Information

On October 30, 2019, the Company entered into the First Amendment to the New Loan Agreement. The First Amendment reflects (i) an increase in the limit for the covenant related to Maximum Capital Expenditures (as defined in the New Loan Agreement) for fiscal year 2019 and (ii) a new provision regarding the treatment of certain supported “qualified financial contracts,” which include certain swap contracts.

The foregoing is a summary of the terms of the First Amendment and is qualified in its entirety by reference to the full text of the First Amendment, a copy of which is filed herewith as Exhibit 10.1.

Item 6. Exhibits

Exhibit No.	Description
10.1	First Amendment, dated October 30, 2019, to the Fourth Amended and Restated Loan and Security Agreement Amendment, dated May 15, 2019, by and among the Company and City National Bank, a national banking association, as the arranger and administrative agent, and the lenders thereto.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
EX-101.INS	Inline 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.
EX-101.SCH	Inline XBRL Taxonomy Extension Schema Document
EX-101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
EX-101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
EX-101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
EX-101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
EX-104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, has been formatted in Inline XBRL.

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.

Date: November 5, 2019

FRESHPET, INC.

/s/ William B. Cyr
William B. Cyr
Chief Executive Officer
(Principal Executive Officer)

/s/ Richard Kassar
Richard Kassar
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 10.1

October 30, 2019

Freshpet, Inc.
400 Plaza Drive FL 1
Secaucus, NJ 07094 Attention:
Richard Kassar

Re: First Amendment to Fourth Amended and Restated Loan and Security Agreement Ladies and Gentlemen:

We refer to that certain Fourth Amended and Restated Loan and Security Agreement dated as of May 15, 2019, by among the lenders identified on the signature pages thereof (such lenders, together with their respective successors and permitted assigns, each individually a "Lender" and collectively "Lenders"), City National Bank, a national banking association ("CNB"), as the lead arranger and administrative agent for the Lenders (in such capacity as administrative agent, together with its successors and assigns in such capacity, "Agent"), and Freshpet, Inc., a Delaware corporation (the "Borrower") (as amended, modified or supplemented from time to time, the "Loan Agreement"). Capitalized terms used herein and not defined shall have the meanings assigned to them in the Loan Agreement.

The Borrower has requested, and the Required Lenders have agreed, effective as of the date first set forth above, to amend the Loan Agreement to (i) increase the maximum Capital Expenditures covenant for fiscal year 2019 and (ii) add a new provision regarding supported qualified financial contracts, in each case, as set forth below. Accordingly, the parties hereto agree as follows:

The table in Section 7.18(b)(i) of the Loan Agreement is hereby amended and restated in its entirety, to read as follows:

"Fiscal Year	**Maximum Capital Expenditures**
2019	$99,000,000
2020	$69,000,000
2021	$13,000,000
2022	$13,000,000
2023	$23,000,000
2024	$25,000,000"

Exhibit 10.1

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A new Section 17.14 is hereby added to the Loan Agreement, immediately following existing Section 17.13 of the Loan Agreement, to read as follows:

"Section 17.14 **Acknowledgement Regarding Any Supported QFCs**. To the extent that this Agreement and any other Loan Document provide support, through a guarantee or otherwise, for any Swap Contract or any other agreement or instrument that is a QFC (such support, "QFC Credit Support", and each such QFC, a "Supported QFC"), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the "U.S. Special Resolution Regimes") in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of California and/or of the United States or any other state of the United States):

(a) In the event a Covered Entity that is party to a Supported QFC (each, a "Covered Party") becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

(b) As used in this Section 17.14, the following terms have the following meanings:

"BHC Act Affiliate" of a party means an "affiliate" (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such party.

"Covered Entity" means any of the following: (i) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

Exhibit 10.1

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(ii) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or (iii) a "covered FSI" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

"Default Right" has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

"QFC" has the meaning assigned to the term "qualified financial contract" in, and shall be interpreted in accordance with, 12 U.S.C. 5390(c)(8)(D).

"Swap Contract" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement."

This letter amendment (this "Agreement") shall become effective upon receipt by the Agent of a fully-executed counterpart of this Agreement signed by the Borrower, the Guarantors, and the Required Lenders.

The governing law, judicial reference, jury trial waiver and venue provisions of Section 13 of the Loan Agreement are incorporated herein by this reference *mutatis mutandis*. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. Delivery of an executed counterpart hereof by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart. Except as amended hereby, all of the provisions of the Loan Agreement and the other Loan Documents shall remain unmodified and in full force and effect except that each reference to the "Agreement" in the Loan Agreement, or words of like import in any Loan Document, shall mean and be a reference to the Loan Agreement as amended hereby. This Agreement shall be deemed a "Loan Document" as defined in the Loan Agreement.

[Signature Pages follow]

Exhibit 10.1

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Exhibit 10.1

If you are in agreement with the foregoing, please execute this letter in the space provided below.

Very truly yours ,

CITY NATIONAL BANK,
a national banking association,

as Agent, Lead Arranger and as a Lender

By: Garen Papazyan

Name:

Title:

Garen Papazyan Senior Vice President

BANK OF AMERICA, N.A.,
a national banking association. as a Lender

By:

Name:

Title:

[Signature Page to First Amendment]

Exhibit 10.1

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Exhibit 10.1

If you are in agreement with the foregoing, please execute this letter in the space provided below.

Very truly yours,

CITY NATIONAL BANK,
a national banking association,
as Agent, Lead Arranger and as a Lender

By:
Name:
Title: ______________________________________

BANK OF AMERICA, N.A.,
a national banking association, as a Lender

By: ______________________________
Name: EDWARD MACCHIA
Title: SENIOR VICE PRESIDENT

Exhibit 10.1

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[Signature Page to First Amendment]

FRESHPET, INC.,
a Delaware, as Borrower

By: ______________________
Name: Richard Kassar
Title: CFO

Exhibit 10.1

[Signature Page to First Amendment
]

By executing below, each of the undersigned acknowledges the foregoing amendment to the Loan Agreement, and hereby reaffirms all its obligations under the Loan Documents to which it is a party:

By: ______________________

Name: Richard KASSAR

Title: CFO

PROFESSOR CONNORS CANADA, INC.,
a company organized under the laws of the province of Ontario

By: ______________________

Name: Richard Kassar

Title: CFO

Exhibit 10.1

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[Signature Page to First Amendment]

Exhibit 10.1

FRESHPET EUROPE LTD, a United Kingdom private limited company,

By: Cathal Walsh

Name: CATHAL WALSH.

Title: Co-founder and Managing Director

FRESHPET NE B.V., a Dutch private liability company,

By: Cathal Walsh

Name: CATHAL WALSH.

Title: Cofounder and Managing Director.

Exhibit 10.1

141775490v4

[Signature Page to First Amendment]

Exhibit 31.1

CERTIFICATIONS

I, William B. Cyr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Freshpet, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (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 5, 2019

/s/ William B. Cyr
William B. Cyr
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Richard Kassar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Freshpet, Inc.;

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (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 5, 2019

/s/ Richard Kassar
Richard Kassar
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of Freshpet, Inc., a Delaware corporation (the “Company”), for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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; and

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

Date: November 5, 2019

/s/ William B. Cyr
William B. Cyr
Chief Executive Officer

/s/ Richard Kassar
Richard Kassar
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.