

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 March 31, 2017

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

(State or other jurisdiction of
incorporation or organization)

400 Plaza Drive, 1 st Floor, Secaucus, New Jersey

(Address of principal executive offices)

20-1884894

(I.R.S. Employer
Identification No.)

07094

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a small reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 May 5, 2017, the registrant had 34,114,712 shares of common stock, \$0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FRESHPET, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,023,788	\$ 3,908,177
Accounts receivable, net of allowance for doubtful accounts	8,718,873	8,886,790
Inventories, net	7,607,293	5,402,735
Prepaid expenses and other current assets	769,940	1,045,651
Total Current Assets	19,119,894	19,243,353
Property, plant and equipment, net	101,712,630	101,493,080
Deposits on equipment	3,705,972	3,620,444
Other assets	2,265,903	2,094,339
Total Assets	\$ 126,804,399	\$ 126,451,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	10,728,553	6,884,155
Accrued expenses	3,794,187	4,531,139
Accrued warrants	145,275	253,391
Borrowings under Credit Facilities	5,750,000	7,000,000
Total Current Liabilities	\$ 20,418,015	\$ 18,668,685
Total Liabilities	\$ 20,418,015	\$ 18,668,685
STOCKHOLDERS' EQUITY:		
Common stock — voting, \$0.001 par value, 200,000,000 shares authorized, 34,040,832 and 33,961,650 issued and outstanding on March 31, 2017 and December 31, 2016, respectively	34,040	33,961
Additional paid-in capital	300,961,005	299,477,706
Accumulated deficit	(194,608,661)	(191,729,136)
Total Stockholders' Equity	106,386,384	107,782,531
Total Liabilities and Stockholders' Equity	\$ 126,804,399	\$ 126,451,216

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
NET SALES	\$ 34,513,935	\$ 31,453,700
COST OF GOODS SOLD	18,710,658	16,565,813
GROSS PROFIT	15,803,277	14,887,887
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	18,543,748	16,487,082
LOSS FROM OPERATIONS	(2,740,471)	(1,599,195)
OTHER INCOME/(EXPENSES):		
Other Income/(Expenses), net	57,677	(40,869)
Interest Expense	(175,977)	(116,738)
	(118,300)	(157,607)
LOSS BEFORE INCOME TAXES	(2,858,771)	(1,756,802)
INCOME TAX EXPENSE	20,754	15,000
NET LOSS	(2,879,525)	(1,771,802)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (2,879,525)	\$ (1,771,802)
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS		
-BASIC	\$ (0.09)	\$ (0.05)
-DILUTED	\$ (0.09)	\$ (0.05)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING USED IN COMPUTING NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS		
-BASIC	33,563,133	33,537,280
-DILUTED	33,563,133	33,537,280

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,879,525)	\$ (1,771,802)
Adjustments to reconcile net loss to net cash flows provided by operating activities:		
Provision for loss on accounts receivable	77,164	7,805
Loss on disposal of equipment and deposits on equipment	6,005	143,407
Share-based compensation	930,157	1,006,046
Fair value adjustment for outstanding warrants	(108,116)	(58,122)
Change in reserve for inventory obsolescence	81,925	133,174
Depreciation and amortization	3,049,127	2,071,272
Amortization of deferred financing costs and loan discount	40,751	35,901
Changes in operating assets and liabilities		
Accounts receivable	90,753	(110,542)
Inventories	(2,286,483)	(1,463,223)
Prepaid expenses and other current assets	275,711	(974,899)
Other assets	(265,272)	(184,987)
Accounts payable	3,801,808	1,774,682
Accrued expenses	(736,952)	1,406,479
Net cash flows provided by operating activities	<u>2,077,053</u>	<u>2,015,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	-	3,250,000
Acquisitions of property, plant and equipment, software and deposits on equipment	(3,270,498)	(13,045,117)
Proceeds from sale of equipment	5,835	5,672
Net cash flows (used in) investing activities	<u>(3,264,663)</u>	<u>(9,789,445)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of options to purchase common stock	553,221	10,970
Repayment of borrowings under Credit Facilities	(1,250,000)	—
Net cash flows (used in) provided by financing activities	<u>(696,779)</u>	<u>10,970</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,884,389)</u>	<u>(7,763,284)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,908,177</u>	<u>8,029,413</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,023,788</u>	<u>\$ 266,129</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 154,165	\$ 5,000
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property, plant and equipment purchases in accounts payable	\$ 1,447,039	\$ 839,716

See accompanying notes to the unaudited consolidated financial statements.

FRESHPET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Nature of the Business – Freshpet, Inc. (hereafter referred to as “Freshpet” or the “Company”), 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, Canada, and other international markets into major retail classes including Grocery and Mass (which includes club) as well as Pet Specialty and Natural retail.

Principles of Consolidation – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“U.S. GAAP”). The 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.

Basis of Presentation – The accompanying consolidated balance sheet as of March 31, 2017, statements of operations and comprehensive loss for the three months ended March 31, 2017 and 2016, and statements of cash flows for the three months ended March 31, 2017 and 2016 are unaudited. The interim unaudited financial statements have been prepared on the same basis as the annual audited 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 March 31, 2017, the results of its operations for the three months ended March 31, 2017 and 2016, and its cash flows for the three months ended March 31, 2017 and 2016. The financial data and other information disclosed in these notes related to the three months ended March 31, 2017 and 2016 are unaudited. The results for three months ended March 31, 2017 are not necessarily indicative of results to be expected for the year ending December 31, 2017, or any other interim periods, or any future year or period.

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, 2016.

Estimates and Uncertainties – The preparation of 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 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.

Foreign Currency Contracts – The Company may enter into forward exchange contracts to reduce the Company’s exposure to foreign currency fluctuations of certain assets and liabilities denominated in foreign currencies. 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 Loss in Other income/(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 March 31, 2017, the notional value of foreign currency forward contracts outstanding was \$1.2 million Pounds Sterling. The fair value of the foreign currency forward contracts are measured using Level 2 inputs in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts. For the three months ended March 31, 2017 the net loss recognized on forward contracts was immaterial.

Note 2 – Recently Issued Accounting Standards:

In May 2014, the Financing Accounting Standard Board (“FASB”) issued ASU No. 2014-09, “Revenue from Contracts with Customers”, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In connection with this ASU, the FASB also issued ASU No. 2016-10 regarding identification of performance obligations and licensing considerations, ASU No. 2016-12 regarding narrow scope

FRESHPET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

improvements and practical expedients, and ASU No. 2016-08 which clarifies the implementation of guidance on principal versus agent considerations. In August 2015, the FASB deferred the effective date of ASU No. 2014-09 to fiscal years beginning after December 15, 2017, with early adoption permitted only for fiscal years beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method.

The Company is currently utilizing a comprehensive approach to assess the impact of this guidance by reviewing current accounting policies to identify the potential impact of the new requirements on its revenue contracts. The Company does not currently expect this guidance to have a material impact on its consolidated financial statements and related disclosures. The Company currently expects to adopt the new guidance beginning in the fiscal year ended December 31, 2018 and has not yet selected a transition method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is assessing the impact of ASU No. 2016-02 on its corporate office lease, and upon adoption of this guidance, expects to record the lease on its consolidated balance sheet in accordance with ASU No. 2016-02.

Note 3 – Inventories:

	March 31, 2017	December 31, 2016
Raw Materials and Work in Process	\$ 1,652,377	\$ 1,568,789
Packaging Components Material	883,492	908,771
Finished Goods	5,283,959	3,219,634
	7,819,828	5,697,194
Reserve for Obsolete Inventory	(212,535)	(294,459)
	<u>\$ 7,607,293</u>	<u>\$ 5,402,735</u>

Note 4 – Property, Plant and Equipment:

Property, plant and equipment, net are summarized as follows:

	March 31, 2017	December 31, 2016
Refrigeration Equipment	\$ 64,785,966	\$ 62,603,188
Machinery and Equipment	45,966,981	45,953,884
Building, Land, and Improvements	25,114,611	25,114,611
Furniture and Office Equipment	3,973,316	3,941,995
Automotive Equipment	319,496	317,615
Leasehold Improvements	298,741	297,681
Construction in Progress	3,813,251	2,841,035
	144,272,362	141,070,009
Less: Accumulated Depreciation and Amortization	(42,559,732)	(39,576,929)
	<u>\$ 101,712,630</u>	<u>\$ 101,493,080</u>

Depreciation expense related to property, plant and equipment totaled \$2,996,170 for the three months ended March 31, 2017, of which \$1,433,617 was recorded to cost of goods sold for the three months ended March 31, 2017, with the remainder of depreciation and amortization expense recorded to selling, general and administrative expense.

FRESHPET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Depreciation expense related to property, plant and equipment totaled \$2,034,282 for the three months ended March 31, 2016, of which \$678,678 was recorded to cost of goods sold for the three months ended March 31, 2016, with the remainder of depreciation and amortization expense recorded to selling, general and administrative expense.

Note 5 – Accrued Expenses:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Accrued Compensation	\$ 1,343,398	\$ 1,895,443
Accrued Leadership Transition Expense (1)	398,150	428,150
Accrued Chiller Cost	897,380	1,010,018
Accrued Freight	442,696	359,009
Accrued Marketing	299,024	211,184
Other Accrued Expenses	413,539	627,335
	<u>\$ 3,794,187</u>	<u>\$ 4,531,139</u>

(1) Accrued Leadership Transition Costs represent costs detailed within our former Chief Executive Officer's separation agreement as well as incremental costs associated with leadership transition.

Note 6 – Debt:

On November 13, 2014, the Company entered into senior secured credit facilities (the "Debt Refinancing") comprised of a 5-year \$18.0 million term facility (the "Term Facility"), a 3-year \$10.0 million revolving facility (the "Revolving Facility") and a \$12.0 million additional term loan commitment earmarked primarily for capital expenditures (the "Capex Commitments" and together with the Term Facility and Revolving Facility, the "Credit Facilities" and such loan agreement, the "Loan Agreement").

On December 23, 2014, the Company repaid the outstanding \$18.0 million and modified the terms of the \$40.0 million Credit Facilities. The \$18.0 million term facility was extinguished, the 3-year \$10.0 million Revolving Facility remained unchanged, and the \$12.0 million term loan commitment earmarked for capital expenditures was increased to \$30.0 million.

Any drawn Capex Commitments will mature on the fifth anniversary of the execution of the Loan Agreement. Any undrawn Capex Commitments will expire on the third anniversary of the execution of the Loan Agreement. Under the terms of the Loan Agreement, the commitments for the Revolving Facility may be increased up to \$20.0 million subject to certain conditions.

The Loan Agreement provides for the maintenance of various covenants, including financial covenants, and includes events of default that are customary for facilities of this type. As of March 31, 2017, the Company was in compliance with all the covenants in the Loan Agreement and had \$5.8 million in debt outstanding under the Credit Facilities.

There was less than \$0.1 million of accrued interest on the Credit Facilities as of March 31, 2017 and no accrued interest as of March 31, 2016. Interest expense and fees totaled \$0.2 million for the three months ended March 31, 2017. Interest expense and fees totaled \$0.1 million for the three months ended March 31, 2016.

Note 7 – Equity Incentive Plans:

Total compensation cost for share-based payments recognized for the three months ended March 31, 2017 and 2016 was \$930,157 and \$1,018,688, respectively.

2006 Stock Plan— In December 2006, the Company approved the 2006 Stock Plan (the "2006 Plan") under which options to purchase approximately 624,223 shares of the Company's common stock were granted to employees and affiliates of the Company. These options are time-based (vest over five years). Certain option awards provide for accelerated vesting

FRESHPET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

if there is a change in control (as defined in the 2006 Plan). At March 31, 2017, there were zero shares available for grant as the 2006 Plan is frozen. During the three months ended March 31, 2017, 10,808 shares were exercised at a weighted average exercise price of \$6.27, and no shares were forfeited under the 2006 Plan during such period.

2010 Stock Plan — In December 2010, the Company approved the 2010 Stock Plan (the “2010 Plan”) under which options to purchase approximately 2,146,320 shares of the Company’s common stock were granted to employees and affiliates of the Company (in 2012, the 2010 Plan was amended to allow for the granting of approximately 2,220,280 options to purchase shares of the Company’s common stock). These options are either time-based (vest over four years), performance-based (vest when performance targets are met, as defined in the stock option grant agreement), or vest at the occurrence of an exit event which is defined as a change of control in the Company or an initial public offering registered under the Securities Act, as defined in the stock grant agreement. The options granted have maximum contractual terms of 10 years. The Board of Directors froze the 2010 Plan such that no further grants may be issued under the 2010 Plan.

During the three months ended March 31, 2017, 59,735 shares were exercised at a weighted average exercise price of \$7.10, and no shares were forfeited under the 2010 Plan during such period.

2014 Omnibus Incentive Plan —In November 2014, the Company approved the 2014 Omnibus Incentive Plan (the “2014 Plan”) under which 1,479,200 shares of common stock may be issued or used for reference purposes as awards granted under the 2014 Plan. In September 2016, the 2014 Plan was amended to allow for the granting of an additional 2,500,000 shares of common stock to be issued or used for reference purposes as awards granted, for a total of 3,979,200 shares. 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. As of March 31, 2017, 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 3 years and non-employee director RSUs vest over 1 year).

During the three months ended March 31, 2017, there were no grants, exercises, or forfeits under the 2014 Plan.

At March 31, 2017, there were 2,627,585 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, stock-based awards were granted to the Company’s CEO 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 March 31, 2017, the awards granted were time-based (cliff vest over 4 years) and performance-based (vest when performance targets are met, as defined in the stock option grant agreement).

FRESHPET, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 8 – Earnings Per Share:

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

For the three months ended March 31, 2017 and 2016, there were no adjustments between net loss and net loss attributable to common stockholders.

The potentially dilutive securities are as follows:

	Three months ended March 31,	
	2017	2016
Service Period Stock Options	2,762,092	1,976,470
Restricted Stock Units	97,515	—
Warrants	61,117	61,117
Total	<u>2,920,724</u>	<u>2,037,587</u>

For the three months ended March 31, 2017 and March 31, 2016, 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 9 – Related Party Transactions:

Payments of \$2,016,862 for the three months ended March 31, 2017, and \$1,575,374 for the three months ended March 31, 2016, were made to one stockholder for the purchase of raw materials. The Company believes that all payments made to the shareholder are at market value and thus at arms-length.

Note 10 – Concentrations:

Concentration of Credit Risk —The Company maintains its cash balances in financial institutions which 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.

Major Customers —For the three months ended March 31, 2017 and 2016, net sales to one of our distributors, which sells directly to three of our customers, accounted for 24% and 21% of our net sales, respectively. For the three months ended March 31, 2017 and March 31, 2016 no customer accounted for more than 10% of our net sales.

Major Suppliers —The Company purchased approximately 24% of its raw materials from one vendor during the three months ended March 31, 2017, and approximately 22% of its raw materials from one vendor during the three months ended March 31, 2016. Each of the respective vendors was over 10% of our purchased raw materials during the respective period.

The Company purchased approximately 89% of its packaging material from three vendors during the three months ended March 31, 2017, and 72% of its packaging material from three vendors during the three months ended March 31, 2016. Each of the respective vendors was over 10% of our purchased packaging material during the respective period.

The Company also purchased approximately 93% of its treats finished goods from four vendors for the three months ended March 31, 2017, and approximately 90% from four vendors for the three months ended March 31, 2016. Each of the respective vendors was over 10% of our purchased treats finished goods during the respective period.

FRESHPET, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

	Three months ended	
	March 31,	
	2017	2016
Grocery, Mass and Club	\$ 27,975,053	\$ 24,154,710
Pet Specialty, Natural and Other	6,538,882	7,298,990
Net Sales	\$ 34,513,935	\$ 31,453,700

Note 11 – Subsequent Events:

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any 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

During March 2017 the Company announced its "Feed the Growth" initiatives which focus on accelerating the growth of Freshpet through heavier investments in marketing and a more strategic selling approach. We expect to fund the additional marketing investments through a combination of returns from the increased media investment, as well as increased gross margin from additional scale and cost of goods savings initiatives.

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 across leading retailers across North America and have installed Freshpet Fridges in over 17,000 retail stores as of March 31, 2017. All of 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. 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, spoils, and inbound freight. In 2016, we undertook a capital expansion project at our Freshpet Kitchens facility that we believe will further increase our production capacity by at least 130%. Over time, growing capacity utilization of our new facility will allow us to leverage fixed costs and thereby expand our gross profit margins.

Our gross profit margins are also impacted by the cost of ingredients and packaging materials. 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. Prior to the second quarter of 2016, outbound freight from our Freshpet Kitchens was managed by a national third party refrigerated and frozen human food manufacturer. During the second quarter of 2016, we transitioned to a new third party logistics provider. Through our new third party logistics provider's infrastructure, we realized cost efficiencies in logistics during the third quarter of 2016. Additionally, we sell through third party distributors for the grocery, mass, club, pet specialty and natural classes in the United States, Canada, and in the United Kingdom.

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. As discussed above, 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 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 utilize 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.

Stock 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.

Selling, general and administrative costs. Selling, general & administrative ("SG&A") costs as a percentage of net sales have historically decreased from 81.3% in the year ended 2012, 62.7% in 2013, 55.7% in 2014, 50.2% in 2015, and to 47.0% in 2016. As discussed above, our Feed the Growth initiative will focus on growing the business through increased marketing investments. As a result our SG&A costs as a percentage of net sales increased from 52.4% in the three months ended March 31, 2016 to 53.7% in the three months ended March 31, 2017. We believe that as we begin to realize the benefits of our Feed the Growth initiative we once again expect our SG&A expenses to decrease as a percentage of net sales.

Income Taxes

We had federal net operating loss ("NOL") carry forwards of approximately \$160.7 million as of December 31, 2016, which expire between 2025 and 2036. 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, 2016, we had approximately \$132.4 million of State NOLs, which expire between 2017 and 2036. At December 31, 2016, 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 Loss

	Three months ended March 31,			
	2017		2016	
	Amount	% of Net Sales	Amount	% of Net Sales
	(Dollars in thousands)			
Net sales	\$ 34,514	100%	\$ 31,454	100%
Cost of goods sold	18,711	54	16,566	53
Gross profit	15,803	46	14,888	47
Selling, general and administrative expenses	18,544	54	16,487	52
Loss from operations	(2,740)	(8)	(1,599)	(5)
Other income/(expenses):				
Other income/(expenses), net	58	0	(41)	(0)
Interest expense	(176)	(1)	(117)	(0)
Loss before income taxes	(2,859)	(8)	(1,757)	(6)
Income tax expense	21	0	15	0
Net Loss	<u>\$ (2,880)</u>	<u>(8)%</u>	<u>\$ (1,772)</u>	<u>(6)%</u>

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Net Sales

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

	Three Months Ended March 31,					
	2017			2016		
	Amount	% of Net Sales	Store Count	Amount	% of Net Sales	Store Count
	(Dollars in thousands)					
Grocery, Mass and Club* (1)	\$ 27,975	81%	12,183	\$ 24,155	77%	10,783
Pet Specialty, Natural and Other (2)	6,539	19	4,848	7,299	23	4,646
Net Sales	<u>\$ 34,514</u>	<u>100%</u>	<u>17,031</u>	<u>\$ 31,454</u>	<u>100%</u>	<u>15,429</u>

(1) Stores at March 31, 2017 and March 31, 2016 consisted of 8,352 and 7,079 Grocery and 3,831 and 3,704 Mass and Club, respectively.

(2) Stores at March 31, 2017 and March 31, 2016 consisted of 4,533 and 4,358 Pet Specialty and 315 and 288 Natural, respectively.

* Includes sales from Freshpet Baked product of \$0.9 million and \$1.6 million, or 2.7% and 5.2% of total net sales, for the three months ended March 31, 2017 and 2016, respectively.

Net sales increased \$3.1 million, or 10%, to \$34.5 million for the three months ended March 31, 2017 as compared to the same period in the prior year. The \$3.1 million increase in net sales was driven by growth in our Grocery, Mass, and Club refrigerated channel of \$4.4 million, partially offset by declines in Pet Specialty of \$0.7 million and Baked of \$0.6 million. The Company experienced an increase of Freshpet Fridge store locations, which grew by 10.4% from 15,429 as of March 31, 2016 to 17,031 as of March 31, 2017.

Gross Profit

Gross profit increased \$0.9 million, or 6%, to \$15.8 million for the three months ended March 31, 2017 as compared to the same period in the prior year. The increase in gross profit was primarily driven by higher net sales, partially offset by a decrease in gross profit margin.

Our gross profit margin of 45.8% for the three months ended March 31, 2017 decreased 154 basis points compared to the same period in the prior year, primarily related to 220 basis points due to increased depreciation of our Freshpet Kitchens expansion, offset by cost savings and margin improvement through scale.

Adjusted Gross Profit was \$17.2 million and \$15.8 million in the three months ended March 31, 2017 and 2016, respectively. Adjusted Gross Profit Margin was 49.9% and 50.2% in the three months ended March 31, 2017 and 2016, respectively. Adjusted Gross Profit excludes \$1.4 million of depreciation expense in the three months ended March 31, 2017, and \$0.6 million of depreciation expense and \$0.2 million of non-capitalizable plant start-up costs in the three months ended March 31, 2016. 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 \$2.1 million, or 12%, to \$18.5 million for the three months ended March 31, 2017 as compared to the same period in the prior year. Key components of the dollar increase include higher advertising expenses of \$1.4 million, higher depreciation costs of \$0.2 million, and incremental operating expenses of \$0.6 million, offset by lower share-based compensation expenses of \$0.1 million. The increased operating expenses were primarily due to new hires, increased employee benefit costs, and increased refrigerator repairs due to our growing Freshpet Fridge network.

As a percentage of net sales, selling, general and administrative expenses increased to 54% for the three months ended March 31, 2017 from 52% for the three months ended March 31, 2016. Adjusted SG&A increased as a percentage of net sales to 51.1% in the first quarter of 2017 as compared to 49.4% of net sales in the first quarter of 2016. Adjusted SG&A excludes \$0.9 million and \$1.0 million for non-cash items related to share-based compensation in the first quarter of 2017 and 2016, respectively. 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 increased \$1.1 million, or 71%, to \$2.7 million for the three months ended March 31, 2017 as compared to the same period in the prior year as a result of the factors discussed above.

Interest Expense

For the three months ended March 31, 2017, interest expense was \$0.2 million, which related to fees and interest expense on our short-term borrowings of our 3-year \$10.0 million Revolving Facility and \$30.0 million term loan commitment earmarked for capital expenditures. Interest expense for the three months ended March 31, 2016 was \$0.1 million.

Other Income/(Expenses), net

Other income/(expenses), net increased \$0.1 million to less than \$0.1 million for the three months ended March 31, 2017, primarily related to the revaluation of warrants. Income related to the revaluation of warrants was \$0.1 million for the three months ended March 31, 2017 as compared to expenses of less than \$0.1 million for the same period in the prior year.

Net Loss

Net Loss increased \$1.1 million, or 63%, to \$2.9 million for the three months ended March 31, 2017 as compared to a loss of \$1.8 million for the same period in the prior year.

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

The non-GAAP 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 plant start-up costs. We define Adjusted SG&A Expenses as SG&A Expenses before non-cash share-based compensation, leadership transition expenses, and fees related to a secondary offering. EBITDA represents net loss plus depreciation and amortization, interest expense, and income tax expense. Adjusted EBITDA represents EBITDA plus loss on disposal of equipment, plant start-up expense, share-based compensation, warrant fair valuation, launch expenses, fees related to a secondary offering, and leadership transition costs.

We believe that each of these non-GAAP financial measures provides an additional metric 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, provides 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 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 loss, income 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 stock 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 March 31,	
	2017	2016
(Dollars in thousands)		
Net loss	\$ (2,880)	\$ (1,772)
Depreciation and amortization	3,049	2,071
Interest expense	176	117
Income tax expense	21	15
EBITDA	\$ 366	\$ 431
Loss on disposal of equipment	6	143
Launch expense (a)	755	722
Plant start-up expenses and processing (b)	—	238
Non-cash stock based compensation (c)	930	1,006
Warrant fair valuation (d)	(108)	(58)
Adjusted EBITDA	\$ 1,949	\$ 2,482

(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 additional operating costs incurred in 2016 in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion project.

(c) Represents non-cash stock based compensation expense.

(d) Represents the change of fair value for the outstanding common stock warrants.

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 March 31,	
	2017	2016
Gross Profit (as reported)	\$ 15,803	\$ 14,888
Depreciation expense (a)	1,434	679
Plant start-up expenses and processing (b)	—	238
Adjusted Gross Profit	\$ 17,237	\$ 15,805
Adjusted Gross Profit as a % of Net Sales		
Adjusted Gross Profit	\$ 17,237	\$ 15,805
Net Sales	\$ 34,514	\$ 31,454
Adjusted Gross Profit as a % of Net Sales	49.9%	50.2%

(a) Represents non-cash depreciation expense included in Cost of Goods Sold.

(b) Represents additional operating costs incurred in 2016 in connection with the start-up of our new manufacturing lines as part of the Freshpet Kitchens expansion project.

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 March 31,	
	2017	2016
SG&A expenses (as reported)	\$ 18,544	\$ 16,487
Non-cash stock based compensation (a)	890	957
Adjusted SG&A	\$ 17,654	\$ 15,530
Adjusted SG&A as a % of Net Sales	51.1%	49.4%

(a) Represents non-cash stock based compensation expense.

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.

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.

Working Capital consists of current assets net of current liabilities. The working capital decrease to \$(1.3) million at March 31, 2017 compared with \$0.6 million at December 31, 2016 is primarily related to a decrease in cash and cash equivalents as a result of \$3.3 million of capital expenditures and repayment of borrowing of \$1.3 million, partially offset by cash flows from operations of \$2.1 million, which includes the increase in working capital assets and liabilities of \$0.9 million and proceeds from the exercise of stock options of \$0.6 million.

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. During the quarter ended March 31, 2017, we recorded \$3.3 million of capital expenditures.

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

As of March 31, 2017, our capital resources consisted primarily of \$2.0 million cash on hand and \$30.0 million available under our Credit Facilities. As noted above, we undertook a capital expansion project at our Freshpet Kitchens manufacturing facility. In order to fund the expansion, we borrowed \$10.0 million under our Credit Facilities in the second and third quarter of 2016, and have since repaid a total of \$4.3 million.

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.

	Three Months Ended	
	March 31,	
	2017	2016
	(Dollars in thousands)	
Cash at the beginning of period	\$ 3,908	\$ 8,029
Net cash provided by operating activities	2,077	2,015
Net cash used in investing activities	(3,265)	(9,789)
Net cash (used in) provided by financing activities	(697)	11
Cash at the end of period	<u>\$ 2,024</u>	<u>\$ 266</u>

Net Cash Provided by Operating Activities.

Cash provided by operating activities consists primarily of net income adjusted for certain non-cash items (provision for loss on receivables, loss on disposal of equipment, depreciation and amortization, share based compensation, and the fair valuation of warrants).

For the three months ended March 31, 2017, net cash provided by operating activities was \$2.1 million, consisting of adjusted net income of \$1.2 million and change in operating assets and liabilities of \$0.9 million. Adjusted net income excludes \$4.1 million of non-cash items primarily relating to \$0.9 million of share based compensation and \$3.0 million of depreciation and amortization. Change in assets of \$2.2 million is primarily related to growth in accounts receivable, which is primarily due to growth in net sales and an increase in the number of stores with a Freshpet fridge. The increase in liabilities of \$3.1 million was due to timing of payments due to increased media spend in the first quarter of fiscal year 2017.

For the three months ended March 31, 2016, net cash provided by operating activities was \$2.0 million, which primarily consisted of adjusted net income of \$1.6 million, which excludes \$3.3 million of non-cash items primarily relating to \$1.0 million of share based compensation and \$2.1 million of depreciation and amortization. Proceeds were offset by a change in operating assets and liabilities of \$0.7 million. The changes in operating assets and liabilities were due to the decrease of net assets being greater than the increase of net liabilities. Growth in accounts receivable is primarily due to growth in net sales, offset by favorable days outstanding, as well as an increase in the number of stores with a Freshpet fridge. The increase in liabilities was due to timing of payments.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$3.3 million for the three months ended March 31, 2017, relating primarily to capital expenditures for Freshpet Kitchens of \$1.0 million and investment in fridges and other capital spend of \$2.3 million.

Net cash used in investing activities for the three months ended March 31, 2016 relates primarily to capital expenditures for the expansion of Freshpet Kitchens of \$11.2 million (including the Freshpet Kitchens expansion of \$10.7 million and recurring capital expenditures of \$0.5 million) and investment in fridges and other capital spend of \$1.9 million. The cash used in investing activities was partially offset by maturities of short-term investments of \$3.3 million.

Net Cash from Financing Activities

Net cash used in financing activities was \$(0.7) million for the three months ended March 31, 2017, attributable to the repayment of borrowings under our Credit Facilities, partially offset by exercise of stock options of \$0.6 million.

Net cash from financing activities was less than \$0.1 million for the three months ended March 30, 2016, attributable to the exercise of stock options.

Indebtedness

On November 13, 2014, the Company entered into senior secured credit facilities (the "Debt Refinancing") comprised of a 5-year \$18.0 million term facility (the "Term Facility"), a 3-year \$10.0 million revolving facility (the "Revolving Facility") and a \$12.0 million additional term loan commitment earmarked primarily for capital expenditures (the "Capex Commitments" and together with the Term Facility and Revolving Facility, the "Credit Facilities" and such loan agreement, the "Loan Agreement"). On December 23, 2014, the Company repaid the outstanding \$18.0 million and modified the terms of the \$40.0 million Credit Facilities. The \$18.0 million term facility was extinguished, the 3-year \$10.0 million Revolving Facility remained unchanged, and the \$12.0 million term loan commitment earmarked for capital expenditures was increased to \$30.0 million. Any undrawn Capex Commitments will expire on the third anniversary of the execution of the agreement. Under the terms of the Loan Agreement, the commitments for the Revolving Facility may be increased up to \$20.0 million subject to certain conditions. The Loan Agreement provides for the maintenance of various covenants, including financial covenants, and includes events of default that are customary for facilities of this type.

Any borrowings under the Credit Facilities bear interest at variable rates depending on our election, either at a base rate or at LIBOR, in each case, plus an applicable margin. The initial applicable margin is 3.75% for base rate loans and 4.75% for LIBOR loans. Thereafter, subject to our leverage ratio, the applicable base rate margin will vary from 2.75% and 3.75% and the applicable LIBOR rate margin will vary from 3.75% and 4.75%. The Credit Facilities are secured by substantially all of our assets. The Loan Agreement provides for the maintenance of various covenants, including financial covenants. The Loan Agreement includes events of default that are usual for facilities and transactions of this type.

As of March 31, 2017, the Company was in compliance with all the covenants in the Loan Agreement and had \$5.8 million in debt outstanding under the Credit Facilities. There was less than \$0.1 million of accrued interest as of March 31, 2017 and no accrued interest as of March 31, 2016. Interest expense and fees totaled \$0.2 million for the three months ended March 31, 2017. Interest expense and fees totaled \$0.1 million for the three months ended March 31, 2016.

Contractual Obligations

There were no material changes to our commitments under contractual obligations, as disclosed in our 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 discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with U.S. GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

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 Form 10-K.

Recent Accounting Pronouncements

In May 2014, the Financing Accounting Standard Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers", which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In connection with this ASU, the FASB also issued ASU No. 2016-10 regarding identification of performance obligations and licensing considerations, ASU No. 2016-12 regarding narrow scope improvements and practical expedients, and ASU No. 2016-08 which clarifies the implementation of guidance on principal versus agent considerations. In August 2015, the FASB deferred the effective date of ASU No. 2014-09 to fiscal years beginning after December 15, 2017, with early adoption permitted only for fiscal years beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method.

The Company is currently utilizing a comprehensive approach to assess the impact of this guidance by reviewing current accounting policies to identify the potential impact of the new requirements on its revenue contracts. The Company does not currently expect this guidance to have a material impact on its consolidated financial statements and related disclosures. The Company currently expects to adopt the new guidance beginning in the fiscal year ended December 31, 2018 and has not yet selected a transition method.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is assessing the impact of ASU No. 2016-02 on its corporate office lease, and upon adoption of this guidance, expects to record the lease on its consolidated balance sheet in accordance with ASU No. 2016-02.

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 agreements, which bears interest at variable rates. As of March 31, 2017, we had \$5.8 million outstanding under our Credit Facilities. A change in interest rates of 100 basis points would cause a \$0.1 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. 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 the three months ended March 31, 2017 recognized in the United Kingdom was approximately 1%.

The Company may enter into forward exchange contracts to reduce the Company's exposure to foreign currency fluctuations of certain assets and liabilities denominated in foreign currencies. 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 Loss in Other income/(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 March 31, 2017, the notional value of foreign currency forward contracts outstanding was \$1.2 million Pounds Sterling. The fair value of the foreign currency forward contracts are measured using Level 2 inputs in the fair value hierarchy because they are determined based on a market approach utilizing externally quoted forward rates for similar contracts. For the three months ended March 31, 2017 the net loss recognized on forward contracts was immaterial.

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

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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 April 21, 2016 in the United States District Court for the District of New Jersey against us and certain of our 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 seek to recover damages for investors under the federal securities laws. 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, 2016.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
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	XBRL Instance Document
EX-101.SCH	XBRL Schema Documents
EX-101.CAL	XBRL Calculation Linkbase Document
EX-101.LAB	XBRL Labels Linkbase Document
EX-101.PRE	XBRL Presentation Linkbase Document
EX-101.DEF	XBRL Definition Linkbase Document

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: May 8, 2017

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)

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
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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: May 8, 2017

/s/ William B. Cyr

William B. Cyr

Chief Executive Officer

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
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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: May 8, 2017

/s/ Richard Kassar
Richard Kassar
Chief Financial Officer

**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 March 31, 2017, 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: May 8, 2017

/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.