

Introduction

The following is a mock excerpt from a Form 10-K for a processed foods company, “AgaSea Foods Unlimited,” that incorporates disclosure to the SASB Standard for Processed Foods into its Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). This document serves as an example of one type of disclosure SASB envisions for its standards; it is not intended to provide a template for companies to follow. This is a working document on which SASB is actively soliciting feedback on the content, scope, and presentation format of disclosure to SASB Standards. Comments can be made via: www.sasb.org/contact

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

Commission file number 000-12345

AgaSea Foods Unlimited

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**429 Kirk Street, Suite 1970,
Las Vegas, Nevada**

(Address of principal executive offices)

99-999999

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

89106-1111

(Zip Code)

...

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Sustainability Performance

Overview

At AgaSea Foods Unlimited, all sustainability matters fall under the purview of the Chief Operating Officer, who reports on these issues to the Company’s Board of Directors. Our current COO has advised the Board that all the disclosure topics identified by the Sustainability Accounting Standards Board’s (SASB) Sustainability Accounting Standard – Processed Foods (CN0103) represent trends and uncertainties that may materially impact our operational performance or financial condition. What follows are disclosures and discussions of our performance on these seven sustainability topics. Following that are Table 1, which summarizes the quantitative metrics contained herein, and Table 2, which displays “activity metrics.” The purpose of these “activity metrics”, which indicate the scale of our operations, is to place in context the disclosures and discussions and to facilitate a normalized comparison of our performance to that of other processed foods companies of varying sizes.

Energy & Fleet Fuel Emissions

Energy is a critical input to our operations, and it constitutes a significant share of our operating costs and our carbon footprint. Energy efficiency is key to preserving margins and therefore important to our financial results. In 2009, we initiated a Company-wide cost-management plan that included implementing several energy-efficiency measures. One of the results of this initiative was a twelve percent reduction in total energy consumed in 2014 as compared to 2010.

Operational energy consumed, percentage grid electricity, percentage renewable

Our two primary sources of energy are public utilities and natural gas. We are currently piloting the use of biomass as an energy source but do not expect it to replace our existing power sources to a substantial degree. For the past three years, we have also piloted the purchase of Green-e Energy Certified renewable energy certificates (RECs), but we are not currently planning to expand these purchases. In addition to focusing on efficiency, we are working to reduce our reliance on grid electricity in order to reduce price risk. Through prudent use of hedging instruments, we can lower the variability in the price we pay for natural gas and, as a result, further limit energy price risk. Over the medium and long term, these measures can help us control costs and preserve margins.

Metric	Year Ended December 31,		
	2012	2013	2014
Operational energy consumed (in thousands of gigajoules)	26,890	26,233	25,490
Percentage grid electricity	43%	40%	39%
Percentage renewable	1%	2%	2%

Fleet fuel consumed, percentage renewable

External companies conduct the vast majority of our transportation operations. Over the past three years, we conducted approximately four percent of our total transportation operations, as measured in total distance traveled. The numbers reported here do not necessarily represent four percent of our total fleet fuel consumption, nor do they necessarily indicate that none of our total transportation operations are fueled with renewable resources. Each of our external partners operates independently, and we do not currently include fuel consumption or usage of renewable fuels as criteria when selecting transportation partners.

As part of the cost-management plan initiated in 2009, we upgraded many Company-owned vehicles to more efficient models and re-assessed many of our typical logistical patterns. As a result, fuel consumption dropped nineteen percent between 2010 and 2014.

Metric	Year Ended December 31,		
	2012	2013	2014
Fleet fuel consumed (in gigajoules)	412,888	390,119	345,228
Percentage renewable	0%	0%	0%

Water Management

Like energy, water plays a crucial role in our operations. Its cost has historically been low relative to the costs of other inputs, but in making medium- and long-term projections, we do not expect that trend to continue. Therefore, we included increasing water efficiency as a major component in our 2009 cost-management initiative. The results of those efforts are now paying off in the form of reduced water usage. We describe our efficiency measures and overall water-use strategy in greater detail in the third part of this section.

Total water withdrawn, total water consumed, percentage in regions with high or extremely high baseline water stress

We obtain the vast majority of our water from local municipal sources. We do not obtain a substantial amount of water from other sources. It is important to note that we reuse approximately thirty-five percent of water from our operations to help irrigate local farms. However, according to the SASB

standard, this water is still counted as consumed by our operations because it is not returned to the original catchment area from which it was withdrawn.

In all our operations, we make every effort to reduce our water consumption to help reduce our operating risk. We describe some examples and discuss our water-saving strategy in more detail later in this section.

Metric	Year Ended December 31,		
	2012	2013	2014
Total water withdrawn	57,134	54,980	49,237
Total water consumed	51,421	49,480	44,113
Water withdrawn in locations with high or extremely high baseline water stress (as a percentage of total water withdrawn)	13%	10%	10%
Water consumed in locations with high or extremely high baseline water stress (as a percentage of total water consumed)	13%	10%	10%

Water-related non-compliance incidents

More than half of the Company's water-related non-compliance incidents over the last three fiscal years have related to exceeding our total maximum daily load (TMDL) wasteload allocations (WLAs) under the National Pollutant Discharge Elimination System (NPDES), and approximately twenty percent have related to exceeding wastewater pretreatment parameters for water we discharge to publicly owned treatment works (POTWs). Although we strive for zero incidents of non-compliance, we do not expect their current level, or the fines associated with them, to have a material impact on our results of operations. In general, we expect the number of WLA exceedances to fall as we continue to implement the water-efficiency measures described later.

Metric	Year Ended December 31,		
	2012	2013	2014
Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations	16	21	15

Water risks and risk mitigation strategies

With the importance of water to our operations, we carefully monitor trends relating to our ability to procure it efficiently. Of particular importance are trends in availability of adequate, clean supplies and in public perceptions about our stewardship of this vital resource. The first could affect our operating costs, and the second could affect our social license to operate. Several factors influence our access to adequate supplies of clean water, as summarized in the following matrix.

Type of risk	Sources of risk	Mitigating actions taken	Potential to materially affect operating results
Environmental	<ul style="list-style-type: none"> Short- and medium-term: 1) Natural variability from season to season and year to year. 2) Operating in water-stressed regions. Short-, medium, and long-term: Impacts of climate change, including drought. 	<ul style="list-style-type: none"> Water-efficiency measures. Forecasting and analysis activities. Long-term facilities location planning. Support for public policy to reduce the effects of climate change. 	<ul style="list-style-type: none"> Moderate to high, primarily by impacting operating costs and, by extension, margins.

Type of risk	Sources of risk	Mitigating actions taken	Potential to materially affect operating results
Costs	<ul style="list-style-type: none"> Short-, medium-, and long-term: 1) Increased cost to use our existing water supplies (primarily public utilities). 2) Increased cost to access potential alternative sources. Both types of costs would primarily be driven by increased competition for water. 	<ul style="list-style-type: none"> Water-efficiency measures. R&D to redesign operations and facilities to use substantially less water. Including higher future water costs in medium- and long-term planning analyses. 	<ul style="list-style-type: none"> Moderate to high, primarily by impacting margins.
Public perceptions	<ul style="list-style-type: none"> Short-term: 1) Increased concern and activism over our operations' water usage. 2) Decreased brand value resulting from negative perceptions. Medium- and long-term: 1) Policies restricting access to public water supplies. 2) Policies increasing the rates we pay for supplies from public water sources. 	<ul style="list-style-type: none"> Water-efficiency measures. Support for public policy to reduce the effects of climate change. Public education campaigns on our responsible water usage practices. 	<ul style="list-style-type: none"> Uncertain. May be higher in the medium- to long-term than the short-term. Mitigating activities may result in this issue being immaterial.

The mitigating actions noted above are designed to reduce the magnitude of the impact of the risks and, in turn, prevent them from materially affecting our results of operations.

Our water-efficiency measures span all of our operations and focus on the short-term (one to five years) and medium-term (five to eight years). We focus first on reducing our water consumption because this practice helps us reduce our risk. For example, we have reformulated approximately nine percent of our products to reduce the water necessary to produce them. As we upgrade existing production facilities and plan to build new ones, we are installing equipment designed to reduce our need for water for other purposes, such as cooling and cleaning. We also work to re-engineer processes with existing equipment to reduce our need for water. Usually, we put water-saving equipment and practices into areas with high or extremely high baseline water stress before we put them elsewhere. When we reformulate recipes, we generally reformulate them across our production facilities, rather than attempting to produce multiple versions of the same product in different locations. This practice helps us maintain or increase operating efficiency. When analyzing potential investments designed to reduce our water consumption, we assume water will cost more in the future than it does today, and that it may cost substantially more in certain areas.

In addition, we use forecasting tools to align water withdrawn as closely as possible with water necessary to run our facilities (i.e., the water we consume) and use the ratio of water consumed to water withdrawn to assess our efficiency. We first introduced these in water-stressed regions and therefore our results in those areas lead the results of those efforts elsewhere. This practice helps ensure we do not unnecessarily stress local water supplies.

In 2010, we instituted a water re-use policy that mandates all fresh water withdrawn be used at least twice whenever technologically possible. This policy remains in place and has helped us reduce our total water consumption and increase our provisions of water to local farms for irrigation. In some locations, we invested in increased and/or improved infrastructure in order to transport the water to these farms. We are also piloting rainwater collection at two of our production facilities to determine if such measures would be beneficial throughout our operations.

To make further reductions in our total water usage, we are planning now for the long-term (nine to twenty years). Our R&D team is assessing ways to redesign both our operations and our facilities in an effort to substantially reduce our need for water. However, we do not expect these projects to affect our total water consumption for at least five years. Our operations planning team is assessing the potential to relocate some of our facilities to places with lower levels of water stress and/or relatively more abundant water supplies. It is important to note that this strategy would come with substantial cost tradeoffs and may not ultimately prove feasible.

Also relevant to the long-term are our efforts to support public policy to reduce the effects of climate change. These efforts help improve quality of life for everyone, and they demonstrate to our customers and the residents of the communities in which we operate our commitment to acting as good stewards of public resources.

We have set a target to reduce our water consumption per kilogram of finished product (excluding packaging) by twenty-five percent from 2010 levels by 2030. To date, we are on track to meet the target. The mechanisms described above are the primary ways we will achieve this target, and we expect our R&D team's efforts to provide at least some of the reductions. Risk exists that these projects will not result in the reductions we expect. In addition, water-usage reductions may be possible to achieve but not necessarily represent operational improvements. For example, if our R&D team develops a way to substantially reduce water consumption that is not cost-beneficial because it requires large investments in capital equipment, we may not reach our target. Should we fall short of our target, our costs may increase, but it is currently not possible to determine whether they would do so to such a degree as to materially impact our results of operations.

In addition to risks affecting our ability to access clean water, we face risks related to discharging wastewater, which we summarize in the following matrix.

Type of risk	Sources of risk	Mitigating actions taken	Potential to materially affect operating results
Environmental	<ul style="list-style-type: none"> • Ongoing compliance with existing and evolving regulations. • Preventing release of potentially polluting substances. • Emergence of new pollutants of concern. 	<ul style="list-style-type: none"> • Thorough understanding of regulatory requirements. • Careful maintenance of facilities, particularly water-treatment operations. • Regular monitoring of environmental research regarding potential pollutants of concern. 	<ul style="list-style-type: none"> • Low to moderate.
Costs	<ul style="list-style-type: none"> • Fines, penalties, and/or litigation associated with non-compliance with regulations. 	<ul style="list-style-type: none"> • Thorough understanding of regulatory requirements. • Careful maintenance of facilities, particularly water-treatment operations. 	<ul style="list-style-type: none"> • Low to moderate.

Type of risk	Sources of risk	Mitigating actions taken	Potential to materially affect operating results
Public perceptions	<ul style="list-style-type: none"> • Reduced social license to operate resulting from negative perceptions. • Policies substantially altering our operating cost structures. 	<ul style="list-style-type: none"> • Thorough understanding of regulatory requirements. • Careful maintenance of facilities, particularly water-treatment operations. • Regular monitoring of environmental research regarding potential pollutants of concern. 	<ul style="list-style-type: none"> • Low to moderate.

In general, these risks do not affect different time horizons or locations in different ways. Rather, we are constantly working to ensure all our operations are safe and meet all regulatory requirements. We do monitor research regarding potentially emerging issues, and we see this research as having the potential to impact our operations in the short- and/or medium-term. In areas unrelated to wastewater discharge, this has already occurred. For example, the public concern over bisphenol A (BPA), and many consumers' expectation that companies remove the substance from their packaging as soon as possible, demonstrates how quickly emerging research can sometimes necessitate operational changes. (Indeed, we were one of the first processed foods companies to completely eliminate BPA from packaging.) Our water-related improvement target does not currently include specific goals related to the quality of water discharge. We are instead focused on compliance, maintenance, and monitoring as noted above.

Food Safety

We value our customers and their patronage, which is why we make food safety a top priority. Our ability to ensure the safety of our products relates directly to our ability to maintain sales and revenues, manage costs, and protect our brand value. Therefore, we carefully monitor all indicators of potential problems on an ongoing basis, and we thoroughly investigate the root causes of all non-conformance incidents and violations.

Global Food Safety Initiative audit conformance

Our products contain ingredients from a variety of sources, and we are proud that 100 percent of our production facilities are Global Food Safety Initiative (GFSI)-certified. They are audited either through the BRC Global Standard for Food Safety or the Global Aquaculture Alliance BAP Seafood Processing Standard, depending on the business segment.

Our 2013 compliance with our GFSI audits is not indicative of our long-term performance. However, we did not dismiss these numbers as anomalies. Instead, we responded with a two-part approach: a comprehensive operational review of the plants at which the largest share of non-conformances occurred and a Company-wide training refresher for all production facility employees. The plant-specific review revealed both equipment- and staff-related problems. After having a third-party inspection conducted, we replaced a total of three pieces of malfunctioning equipment at two different plants. After interviewing the facility staff, we changed multiple procedures and conducted mandatory refresher training in addition to the aforementioned Company-wide training.

It is important to note that for the past five fiscal years, the associated corrective action rate for GFSI major non-conformances has been 100 percent within 45 days.

Metric	Year Ended December 31,		
	2012	2013	2014
GFSI major non-conformance rate	1%	4%	2%
Associated corrective action rate	75%	71%	76%
GFSI minor non-conformance rate	7%	11%	8%
Associated corrective action rate	100%	100%	100%

Percentage of ingredients sourced from supplier facilities certified to a GFSI scheme

Because of the importance of food safety to our Company performance, we require all tier-one (direct) suppliers to be certified by a GFSI scheme. If a tier-one supplier loses its certification, its contract is not immediately terminated. However, if the supplier does not regain certification within six to nine months (depending on a variety of factors), the contract will be terminated. We recognize that this requirement may reduce the pool of potential tier-one suppliers, and therefore potentially increase input costs. The benefits, which include reducing risk (and the associated costs) and protecting brand value, outweigh these costs.

Metric	Year Ended December 31,		
	2012	2013	2014
Percentage of ingredients sourced from supplier facilities certified to a GFSI scheme	100%	100%	100%

Notice of food safety violations

Our operations are closely monitored by multiple regulatory agencies. We strive to comply with all regulations at all facilities. However, all manufacturing processes are subject to error. The relative increase in violation notices received in 2013 primarily relates to the problems described above in the GFSI audit section. That is, the same processes and equipment at the same plants that resulted in GFSI audit non-conformance incidents caused the majority of the 2013 food safety violations. The remediation measures discussed in that section also apply here. It is important to note that no enforcement actions were taken because we corrected all violations in a timely manner.

Metric	Year Ended December 31,		
	2012	2013	2014
Notice of food safety violations received	7	11	3
Percentage corrected	100%	100%	100%

Recalls

We issued two recalls in 2014, both of which related to undeclared allergens in the form of wheat. This mislabeling created risk for consumers sensitive to wheat and/or gluten due to allergies, celiac disease, or other conditions. These two recalls are both considered notable according to the SASB standard's definition. To our knowledge, no fatalities occurred as a result of sensitive consumers eating the mislabeled products, but many consumers reported suffering serious negative reactions. Upon investigation, we discovered that the mislabeling occurred because production had been moved to different equipment that processed wheat, whereas the products had previously been manufactured on equipment that did not also process wheat. The resulting potential cross-contamination was not reflected in the labeling.

Upon discovery of the issue, we immediately notified retailers, who in turn removed the affected products from shelves and posted notices to customers. We also posted notices on our website and through the Food and Drug Administration's (FDA) press release service. In addition, we worked with multiple media outlets to notify the public of the recall, and we provided a toll-free phone number for consumers to call with questions and to report reactions. We also provided consumers the option to contact us through our website. We have also reviewed our Company-wide procedures regarding production-line changes to help reduce the risk of this type of event recurring. To date, the cost of these two recalls has totaled approximately \$987,000, and we expect to incur additional costs in 2015 and possibly beyond. We have paid, and expect to be required to pay, further fines and/or penalties in connection with this recall, but the total amount may not be determined for some time. Although total recall-related costs may be much higher

than the total costs incurred so far (particularly if consumers take legal action against the Company), we do not currently expect them to have a material impact on our results of operations.

Metric	Year Ended December 31,		
	2012	2013	2014
Number of recalls issued	0	0	2
Total amount of food product recalled (metric tons)	0	0	105.4

Health & Nutrition

Over the past two decades, we have substantially increased the number of products we offer that meet specific health and nutrition criteria. Our customers have asked us to make these products, both by voicing their opinions and by purchasing products, from both us and our competitors, that meet these criteria. We have substantially reduced the amount of saturated fat, cholesterol, and sodium in our products, as these have been subject of particular concern from consumers.

Revenue from products labeled and/or marketed to promote health and nutrition attributes

When our products meet the FDA’s guidelines regarding the use of “healthy,” “light,” “reduced,” or similar, we will generally label the product and market it as such. For some products, however, we have found that using this term in labeling and marketing can actually reduce sales. In those cases, we generally avoid the use of the word rather than change the formulation of the product. It appears that in some cases, such as with our MovieNight microwave popcorn, consumers do not purchase the product specifically because it is healthy and may, in fact avoid purchasing if it is labeled as such. Therefore, the total revenue from products we sell that meet the guidelines for use of the term “healthy” is actually somewhat higher than the numbers below indicate.

Metric	Year Ended December 31,		
	2012	2013	2014
Revenue from products labeled and/or marketed to promote health and nutrition attributes (in millions)	\$5,668	\$6,004	\$6,127

Revenue from products that meet Smart Snacks in School criteria or foreign equivalent

We take special care when designing products that are specifically marketed to children, and we have increased the share of our products designed for children that meet the Smart Snacks in School criteria. Although we recognize that this shift in focus may reduce our total revenues, we believe that those costs are offset by enhancements in our brand value and reduced risk of negative public perceptions. We currently offer products that meet the children’s nutritional criteria established by the following countries: the United Kingdom, Canada, and Mexico. Other countries have developed these guidelines, but we currently do not have a large enough market presence in these places to warrant reformulating our products, where necessary, to meet these guidelines. However, we monitor development of these guidelines on an ongoing basis and regularly evaluate whether or not reformulation will benefit both our customers and our shareholders.

Metric	Year Ended December 31,		
	2012	2013	2014
Revenue from products sold in the U.S. that meet Smart Snacks in School criteria (in millions)	\$237	\$244	\$251
Revenue from products sold outside the U.S. that meet the foreign children’s nutrition criteria (in millions)	\$25	\$25	\$26

Processes to identify and manage products and ingredients of concern and to identify and manage emerging dietary preferences

Our success depends on our ability to meet consumers’ preferences and expectations, which are evolving more quickly today than in the past. We comply with all applicable regulations related to ingredients and food additives, and we focus primarily on market research to understand consumer

preferences. In 2004, we substantially expanded our market research team to improve our capacity; this team also monitors research from academic and activist sources, which often influence consumer concerns and therefore can serve as a leading indicator for our operations.

Over the past three fiscal years, concerns regarding artificial colors, potential allergens, and portion sizes have been most salient to consumers and, by extension, to our operations and our planning. In response to these concerns, we have:

- Begun replacing artificial colors in several of our most popular products with natural colors derived from sources such as beets and turmeric.
- Sought certification for products that are free of common allergens, particularly gluten.
- Adjusted portion sizes for approximately 40 percent of our packaged foods, primarily cereals, snacks, and dried fruits.
- Adjusted portion sizes for approximately 22 percent of our frozen meals.

Because we believe in consumer choice, and we recognize that consumers' preferences often differ from government standards, we focus on responding to consumer demands and on giving consumers the information they want regarding our products. We do not currently follow externally developed strategies regarding concern identification or risk communication, nor do we follow externally developed guidelines regarding portion sizes and nutritional content, except as required by regulations or for labeling or marketing purposes.

We develop individual responses each time our market research indicates consumer concern about an ingredient, a class of ingredients (such as artificial colors), a combination of ingredients, or a packaging component (such as BPA). A one-size-fits all approach simply cannot satisfy customer expectations or appropriately assuage their concerns. These responses include customized communication plans. Long before we would need to communicate publicly, however, our R&D team will have thoroughly reviewed the relevant available research and, in many cases, begun evaluating alternatives. By continuously focusing on market research, we are frequently able to identify potential concerns before they attract widespread attention.

We follow essentially the same procedure when understanding and addressing public concerns about the nutritional content and portion sizes of our foods. Nutrition science is evolving, and in many cases, offers conflicting views and guidelines. As a result, we recognize that we cannot satisfy every consumer expectation. Therefore, we prioritize those issues that our research indicates are of high and/or widespread concern or we anticipate are likely to be soon.

All our products that meet the criteria for the USDA Organic label are labeled as such, as are products that meet the criteria for Certified Gluten-Free. The USDA Organic label cannot be applied to products that contain genetically modified ingredients, but we do not currently offer products with the Non-GMO Project Verified label. We continually review the potential costs and benefits of expanding the certification programs in which we participate, but we do not expect to introduce products meeting other certification standards this year.

In connection with our 2014 recall, we received a variety of complaints from consumers who became ill from eating wheat- and gluten-containing products. It is possible that these consumers may file lawsuits, and we cannot predict the outcome of these matters. However, we do not expect lawsuits related to this matter, should they be filed, to materially impact our results of operations.

Product Labeling & Marketing

Number of child advertising impressions made, percentage promoting products meeting the CFBAI Uniform Nutrition Criteria

We advertise our products in a wide variety of media, including media directed specifically towards children. In 2011, we set a goal for all our advertising specifically aimed at children to meet the Children's Food and Beverage Initiative (CFBAI) Uniform Nutrition Criteria by 2015. Although the

criteria became more stringent in 2013, we reached the goal one year early. It is important to note that the SASB standard regarding the percentage of advertising promoting products meeting the criteria includes all advertising, not just that which is child directed. It is also important to note that we can control the content of our advertising aimed at children and that we can control which media carry those advertisements, but we cannot control which forms of media children consume.

We rely on a set of outside advertising and marketing agencies to collect data on how many of our total advertising impressions are made on children. We review the methodology these agencies use and work to ensure that the criteria are comparable across agencies and across media. Estimation methods include rating points and target ratios, visits-per-month data, and others. In addition, our marketing department analyzes data collected by our market research team to enhance the value of the agency-provided data and deepen our understanding of how both children and their parents perceive our products.

Metric	Year Ended December 31,		
	2012	2013	2014
Number of child advertising impressions made (in thousands)	12,432	14,900	15,213
Percentage promoting products meeting the CFBAI Uniform Nutrition Code	77%	77%	78%

Revenue from products labeled as containing GMOs and non-GMO

We do not specifically label products as containing genetically modified organisms (GMOs), nor do we label products as specifically being free of GMOs (non-GMO). We may need to change this practice in order to comply with GMO-labeling regulations that may soon go into effect in different U.S. states. It is not now clear whether those laws will go into effect as scheduled because federal legislation, pending at the time of this filing, may supersede and/or render moot the state legislation. If state-issued regulations regarding GMO labeling do take effect, we will likely incur costs related to re-labeling and/or reformulating our products. In some cases, we may determine that no longer selling certain products in certain markets is the best option. For example, if a state with a small population imposes GMO-labeling requirements, the costs to comply may be too high to justify continuing to sell affected products in that state. In that case, our sales and revenues may decline. We do not expect these uncertainties to materially impact our operating results in the short-term, but it is not now possible to assess how GMO labeling requirements may affect our results in the medium- or long-term.

Also, as noted earlier, we sell products labeled as USDA Organic, and those products are free of GMOs, and we assume that consumers are aware of the USDA's requirement. Therefore, the numbers below reflect revenues from USDA Organic-labeled products.

Metric	Year Ended December 31,		
	2012	2013	2014
Revenue from products labeled as containing GMOs	\$0	\$0	\$0
Revenue from products labeled as non-GMO (in millions)	\$1,106	\$1,257	\$1,710

Notices of violations received for non-conformance with regulatory labeling and/or marketing codes

We carefully monitor our products and labels to ensure accuracy. Consumers expect to be able to rely on our labels, and multiple or major incidents of mislabeling can negatively affect brand value. The one notice of violation indicated below relates to the 2014 recall described earlier. In addition, we have not received non-conformance notices of any kind from any other third-party, industry, or other standards or codes organizations.

Metric	Year Ended December 31,		
	2012	2013	2014
Notices of violations received for non-conformance with regulatory labeling and/or marketing codes	0	0	1

Amount of legal and regulatory fines and settlements associated with marketing and/or labeling practices

Because we have taken great care with our labeling, we have largely avoided fines associated with mislabeling. The fines shown below relate to the 2014 recall described earlier. In the section on recalls, we also include the corrective actions we have implemented to prevent this problem from recurring. Also, it is important to note that we may face additional fines, civil settlements, or other financial penalties related to the recall in the near future.

Metric	Year Ended December 31,		
	2012	2013	2014
Legal and regulatory fines and settlements associated with marketing and/or labeling practices (in thousands)	\$0	\$0	\$103

Packaging Lifecycle Management

Efficient usage of packaging benefits everyone: the Company, our customers, and our shareholders. It also benefits the environment. In some areas in which we operate, and in some areas in which we sell products, recycling and composting are commonplace. In these areas, consumers expect that at least some components of packaging will be recyclable or compostable. Although our research indicates that only a very small share of consumers make purchasing decisions specifically based on the recyclability and/or compostability of packaging, we recognize the importance of improving our performance in this area. We discuss our packaging strategy later in this section.

Total weight of packaging sourced, percentage made from recycled or renewable materials, and percentage that is recyclable or compostable

We describe our efforts to reduce the environmental impact of packaging in the next section. Here, it is important to note that the total weight of packaging sourced declined from 2012 to 2014 even though revenues and total units sold both increased.

Metric	Year Ended December 31,		
	2012	2013	2014
Total weight of packaging sourced	391,909	391,892	391,828
Percentage made from recycled or renewable materials	37%	37%	37%
Percentage that is recyclable or compostable	43%	47%	52%

Strategy to reduce environmental impact of packaging through its lifecycle

Packaging serves many purposes: it preserves food quality and safety, provides information about the food, and may also serve as a preparation container, such as with many of our frozen meals or microwave popcorns. Over the past decade, we have made many changes to our packaging, including replacing coatings on cardboard to improve recyclability, switching from plastic-based to cardboard-based packages for some products, and redesigning packaging to be more efficient. In some cases, these packaging changes have not changed the amount of packaging material required but have instead reduced the need for other inputs, such as fuel for transportation. For example, we now sell all our margarine products in containers that are essentially cubes rather than the traditional round containers. Making this switch allowed us to reduce fuel expenditures for transporting this product class by fourteen percent, which in turn helps us reduce our carbon emissions.

Because packaging serves multiple purposes and can affect various aspects of our products' overall environmental impact, revising our packaging requires careful analysis of the full product and packaging lifecycle. We must ensure packaging can meet all the demands placed upon it and that changing one aspect of packaging will not have a detrimental environmental effect at some other point in the packaging's lifecycle. In addition, using recyclable packaging has no environmental benefit if consumers do not have local access to recycling facilities, are unaware that the packaging is recyclable, or are unsure

of how to recycle it. As such, one aspect of our strategy is supporting policies to increase recycling programs and to promote consumer education.

Underlying all aspects of our strategy is compliance with current and expected regulation. It is probable that these regulations will become stricter in the future than they are today. Some countries have already imposed regulations on manufacturers of durable goods, such as electronics and appliances, to take end-to-end responsibility for products and take them back at the end of their useful lives. These same countries, or other countries, may choose to impose similar regulations on our industry. We are currently monitoring trends and developments and incorporate the most likely possible outcomes into our planning and our efficiency-first measures. We cannot currently estimate the effect that so-called producer-take back regulations would have on our results of operations because it is not yet clear how, where, when, or if these regulations will take effect.

The potential to achieve efficiencies and the need to satisfy customer preferences are the other major drivers of our strategy. As part of our efficiency efforts, we have engaged an external consulting firm that is conducting Life Cycle Assessments (LCAs) in accordance with ISO 14040 and ISO 14044 on our top-selling products. A target date for completion of this assessment has not yet been set. In the medium- and long-term, it is probable that the changes implemented as a result of these LCAs will help preserve margins, but it is not currently possible to determine what effect these changes may have on our results of operations.

Some packaging changes that may not be salient to the consumer have the potential for substantial environmental benefits. For example, we have begun sourcing many of our cardboard-based packaging from firms that use faster-growing trees and have implemented systems to reduce packaging waste. We estimate that these changes will reduce our total packaging consumption by approximately three percent per year every year, and that these reductions may grow in the future.

Our efficiency-first focus includes sourcing packaging products from a variety of suppliers, which helps reduce risks surrounding supply availability. Our internal packaging management team thoroughly understands the demands placed on packaging and incorporates its knowledge and experience into planning, operations, and sourcing decisions.

We completed implementation of ISO 18602, which relates to packaging optimization, in November 2013. We are in the process of implementing ISO 18604, which relates to recyclable packaging. The order of these implementations reflects our efficiency-first focus. Once we have maximized efficiency, we plan to set and publicize specific targets for packaging performance. We expect our efficiency efforts to require at least two more years to complete, but implementation may take longer. We believe delays in completing these efforts are unlikely. If a delay does occur, it is unlikely to materially affect our results of operations.

Environmental & Social Impacts of Ingredient Supply Chains

Percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress

As disclosed earlier, we are making substantial efforts in the near-, mid- and long-term to ensure we use water as efficiently as possible. We do not directly control the water usage practices of our tier-one (direct) suppliers, but we have actively communicated with them regarding the importance of water conservation for more than a decade. In addition to wanting to be good stewards of natural resources, we also recognize that water-related risks facing tier-one suppliers could, in turn, impact our operations. If, for example, suppliers of key ingredients lack access to sufficient water supplies, our costs may increase, which may affect our sales, revenues, and operating margins.

All our suppliers face water-related costs and, therefore, have incentive to use water efficiently. We do not currently impose any contractual or other requirements on suppliers regarding how they use water or where they locate their farms or facilities. However, we actively promote communication among

our suppliers so that they may develop and share best practices and other water-conservation strategies. It is in everyone's best interest to use water wisely, and we and our suppliers recognize that fact. The numbers below cover 100 percent of our tier-one suppliers.

Metric	Year Ended December 31,		
	2012	2013	2014
Percentage of food ingredients sourced from regions with High or Extremely High Baseline Water Stress	18%	18%	19%

Percentage of food ingredients sourced that are certified to third-party environmental and/or social standards

Currently, we sell products that bear the USDA Organic label, as described earlier, but we do not sell products that bear other environmental and/or social certifications or labels. However, some of our tier-one suppliers participate in such programs, primarily the Rainforest Alliance and Bon Sucro. As a result, some of our products contain ingredients that meet these certifications, but we do not label our products as such. For Bon Sucro certification, several of our suppliers of sugar indicate to us that their products are certified to the Bon Sucro Production Standard. For Rainforest Alliance certification, our suppliers indicate to us that their products (primarily cocoa, bananas, and pineapples) are certified to the Sustainable Agriculture standard.

We do not currently include participation in these certification programs as a supplier-selection criterion, and we believe participation is a matter of supplier choice. The increase in purchases of certified ingredients in 2014 over the previous two years is due primarily to increased demand for our USDA Organic-labeled products. Although we expect consumer interest in organic food to increase in general, and therefore this trend to continue in particular, we do not currently expect our performance on this metric to materially affect our results of operations.

Metric	Year Ended December 31,		
	2012	2013	2014
Percentage of food ingredients sourced that are certified to third-party environmental and/or social standards	14%	14%	16%
USDA Organic	10%	10%	12%
Bon Sucro	2%	2%	2%
Rainforest Alliance	2%	2%	2%

Suppliers' social and environmental responsibility audit conformance

The three certification systems noted above all require pre-certification audits and annual follow-up audits to maintain certification. We carefully monitor our and our suppliers' compliance with the USDA Organic certification requirements. Because we do not label products as certified by Bon Sucro or Rainforest Alliance, we have relied on our suppliers to provide data on those non-conformance rates.

We also contractually mandate all tier-one suppliers to adhere to our internal standards regarding labor practices. These standards, which can be viewed online at <http://www.agaseafoods.com/laborstandards>, help us attract reliable workers and to reduce a variety of different risks, particularly those related to safety and labor relations. To the extent that a particular supplier consistently demonstrates poor conformance to these standards, contractual penalties will take effect. We do not publicly disclose the terms of our supplier contracts, but we have previously discontinued relationships with suppliers due to poor performance in this area. No such discontinuations have occurred within the last three fiscal years.

Improvements to supplier conformance with social and environmental standards stems from a Company-wide operational review conducted in 2012 that was aimed at risk reduction. With demand growing for our USDA Organic products, we recognize the importance of ensuring our products meet the standard. If they do not, our brand value could diminish, which could materially affect our results of operations. In addition, conformance to our labor standards was lower than we had initially expected when

we implemented them in 2007. (We granted suppliers a two-year phase-in period during which suppliers were immune from contractual penalties.) Improving conformance to these standards is key to reducing risk and costs, as noted above, so the review also focused on this issue.

When non-conformance incidents occur, we both work to remedy the problem and to understand its root cause(s) to prevent it from recurring. This practice helps us reduce long-term risks and costs that can arise from inconsistent operational results and/or frequently switching suppliers. We are proud of our 100 percent corrective action rates and believe they demonstrate our commitment to careful monitoring and continuous improvement.

Metric	Year Ended December 31,		
	2012	2013	2014
Suppliers' social and environmental responsibility audit major non-conformance rate	7%	4%	3%
Associated corrective action rate	100%	100%	100%
Suppliers' social and environmental responsibility audit major non-conformance rate	14%	9%	9%
Associated corrective action rate	100%	100%	100%

Priority food ingredients and sourcing risks

It is vital to our operations to maintain continuous supplies of key ingredients. We source from a variety of suppliers, a practice that helps reduce many types of risk. When some ingredients are unavailable or have risen substantially in price, we may substitute substantially similar ingredients to preserve margins and finished-product availability. We develop alternative recipes and production processes and analyze when it is wise to use these alternatives as part of our risk-mitigation strategy. We also secure agreements with suppliers that help mitigate risk. For example, we may negotiate agreements such that we are a "priority one" customer whose orders are filled first. We may also negotiate long-term agreements with key suppliers. We recognize that our competitors' approaches to managing supply risks often differ substantially from ours. However, we believe our strategy is an ideal fit for our scale and our market positioning as a highly affordable brand.

The five ingredients that constitute our largest food ingredient expense are wheat, corn, sugar, tomatoes, and soy. The risks associated with each are shown in the following matrix.

Ingredient	Risk to supplies	Potential to materially impact results of operations
Wheat	<ul style="list-style-type: none"> Drought and long-term effects of climate change on water supplies. Severe weather events. 	<ul style="list-style-type: none"> Low to moderate, particularly in the medium-to long-term.
Corn	<ul style="list-style-type: none"> Drought and long-term effects of climate change on water supplies. Severe weather events. Competition for supplies due to increased demand for ethanol/other biofuels. 	<ul style="list-style-type: none"> Likely moderate, particularly in the medium-to long-term.
Sugar	<ul style="list-style-type: none"> Drought and long-term effects of climate change on water supplies. Competition for supplies due to increased demand for ethanol/other biofuels. Pollution, erosion, and habitat loss prompting social concerns about production and reduced license to operate. 	<ul style="list-style-type: none"> Likely moderate, particularly in the medium-to long-term.

Ingredient	Risk to supplies	Potential to materially impact results of operations
Soy	<ul style="list-style-type: none"> • Deforestation and erosion prompting social concerns about production and reduced license to operate. 	<ul style="list-style-type: none"> • Low in the short-term, possibly moderate in the medium-term.
Tomatoes	<ul style="list-style-type: none"> • Public perception of use of greenhouses in production. 	<ul style="list-style-type: none"> • Very low to low.

The translation from risks to supplies to risks to operations is not direct. As noted, we take several steps to reduce the risk to our operations. Still, over time, certain risks are likely to become greater, especially those affecting corn and sugar. Both these crops are in demand to produce biofuels, which are growing in popularity. The vast majority of beet sugar grown in the United States is genetically modified and therefore cannot be used in organic products. Therefore, we source organic sugar from locations such as Hawaii, Australia, and other areas. Cane sugar production is associated, particularly in developing countries, with habitat loss. To the extent that concerns regarding this and other issues increase, we may need to increase our efforts to secure organic sugar. We may also need to increase our efforts to identify alternative ingredients that also meet USDA Organic standards. It is possible these efforts may not help reduce costs or risks. As a result, margins may thin, and we may need to increase prices. These changes may, in turn, impact our results of operations.

Risks presented by supplies of other ingredients are, particularly in the short- and medium-term, relatively lower. Still, we monitor public perception of these risks as part of our market research program and are prepared to adjust our risk-mitigation strategies as needed. We also allocate a portion of our R&D budget for alternative-ingredient research. Generally speaking, we plan to devote an increasing share of R&D funding to this issue over the next three to ten years. Many of the risks are either environmental in nature or relate directly to the environment in the sense that they prompt social concern regarding environmental effects. We are currently assessing to what degree implementing environmental risk-mitigation strategies would improve our results of operations, our social license to operate, and our sales and revenues.

With respect to labor issues, we believe our code of conduct regarding labor practices mitigates the primary short- and medium-term risks associated with these ingredients as well as other ingredients.

Table 1. Summary of Quantitative Accounting Metrics

Disclosure Topic	Metric	Year Ended December 31,		
		2012	2013	2014
Energy & Fleet Fuel Management	Operational energy consumed (in thousands of gigajoules)	26,890	26,233	25,490
	Percentage grid electricity	43%	40%	39%
	Percentage renewable	1%	2%	2%
	Fleet fuel consumed (in gigajoules)	412,888	390,119	345,228
	Percentage renewable	0%	0%	0%
Water Management	Total water withdrawn	57,134	54,980	49,237
	Total water consumed	51,421	49,480	44,113
	Water withdrawn in locations with high or extremely high baseline water stress (as a percentage of total water withdrawn)	13%	10%	10%
	Water consumed in locations with high or extremely high baseline water stress (as a percentage of total water consumed)	13%	10%	10%
	Number of incidents of non-compliance with water quality and/or quantity permits, standards and regulations	16	21	15
	Food Safety	GFSI major non-conformance rate	1%	4%
Associated corrective action rate		75%	71%	76%
GFSI minor non-conformance rate		7%	11%	8%
Associated corrective action rate		100%	100%	100%
Percentage of ingredients sourced from supplier facilities certified to a GFSI scheme		100%	100%	100%
Notice of food safety violations received		7	11	3
Percentage corrected		100%	100%	100%
Number of recalls issued		0	0	2
Total amount of food product recalled (metric tons)		0	0	105.4
Health & Nutrition	Revenue from products labeled and/or marketed to promote health and nutrition attributions (in millions)	\$5,668	\$6,004	\$6,127
	Revenue from products sold in the U.S. that meet Smart Snacks in School criteria (in millions)	\$237	\$244	\$251
	Revenue from products sold outside the U.S. that meet the foreign children's nutrition criteria (in millions)	\$25	\$25	\$26
	Number of child advertising impressions made (in thousands)	12,432	14,900	15,213

Table 1. Summary of Quantitative Accounting Metrics

Disclosure Topic	Metric	Year Ended December 31,		
		2012	2013	2014
Product Labeling & Marketing	Percentage promoting products meeting the CFBAI Uniform Nutrition Code	77%	77%	78%
Product Labeling & Marketing (cont.)	Revenue from products labeled as containing GMOs	\$0	\$0	\$0
	Revenue from products labeled as non-GMO (in millions)	\$1,106	\$1,257	\$1,710
	Notices of violations received for non-conformance with regulatory labeling and/or marketing codes	0	0	1
	Legal and regulatory fines and settlements associated with marketing and/or labeling practices (in thousands)	\$0	\$0	\$103
Packaging Lifecycle Management	Total weight of packaging sourced	391,909	391,892	391,828
	Percentage made from recycled or renewable materials	37%	37%	37%
	Percentage that is recyclable or compostable	43%	47%	52%
Environmental & Social Impacts of Ingredient Supply Chains	Percentage of food ingredients sourced from regions with high or extremely high baseline water stress	18%	18%	19%
	Percentage of food ingredients sourced that are certified to third-party environmental and/or social standards	14%	14%	16%
	USDA Organic	10%	10%	10%
	Bon Sucro	2%	2%	2%
	Rainforest Alliance	2%	2%	2%
	Suppliers' social and environmental responsibility audit major non-conformance rate	7%	4%	3%
	Associated corrective action rate	100%	100%	100%
	Suppliers' social and environmental responsibility audit major non-conformance rate	14%	9%	9%
Associated corrective action rate	100%	100%	100%	

Table 2. Activity Metrics

Metric	Year Ended December 31,		
	2012	2013	2014
Weight of products sold (excluding packaging, in thousands of metric tons)	1,097.4	1,108.4	1,131.1
Total fleet road miles (in thousands)	4,142.7	4,681.4	4,954.7
Number of production facilities	70	70	70

