

13. Description of Rights and Privileges of Capital Stock—Capital Structure Consists of Common Stock and Class A Common Stock

The Company has two classes of capital stock: Common Stock and Class A Common Stock. Except as otherwise required by law or the Company's certificate of incorporation, holders of shares of the Company's capital stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Common Stock entitled to one vote and each share of Class A Common Stock entitled to ten votes. Holders of capital stock have the right of cumulative voting in the election of directors. The Common Stock and Class A Common Stock have equal liquidation rights and the same dividend rights. In the case of any dividend payable in stock, holders of Common Stock are entitled to receive the same percentage dividend (payable only in shares of Common Stock) as the holders of Class A Common Stock receive (payable only in shares of Class A Common Stock). Upon liquidation, dissolution, or winding-up of the Company, the holders of Common Stock are entitled to share ratably with the holders of Class A Common Stock in all assets available for distribution after payment in full of creditors. The holders of Common Stock and Class A Common Stock are not entitled to preemptive or subscription rights. No class of capital stock may be combined or subdivided unless the other classes of capital stock are combined or subdivided in the same proportion. No dividend may be declared and paid on Class A Common Stock unless the dividend is payable only to the holders of Class A Common Stock and a dividend is declared and paid to Common Stock concurrently.

Each share of Class A Common Stock is convertible, at the option of its holder, into one share of Common Stock at any time. The Company's Second Restated Certificate of Incorporation ("Restated Charter") identifies family members of Mr. Adams ("Immediate Family Members") and arrangements and entities that are permitted to receive and hold shares of Class A Common Stock, with ten votes per share, without such shares converting into shares of Common Stock, with one vote per share ("Permitted Transferees"). The Permitted Transferees include arrangements and entities such as revocable trusts and limited liability companies that could hold Class A Common Stock for the benefit of Immediate Family Members. Each Permitted Transferee must have a relationship, specifically defined in the Restated Charter, with another Permitted Transferee or an Immediate Family Member. A share of Class A Common Stock transferred to a person other than a Permitted Transferee would automatically convert into Common Stock with one vote per share. Additionally, the Restated Charter includes a sunset provision pursuant to which all of the outstanding Class A Common Stock will automatically convert to Common Stock if: (a) less than 4,300,000 shares of Class A Common Stock, in the aggregate, are beneficially owned by Immediate Family Members and/or Permitted Transferees, or (b) if less than 4,600,000 shares of Class A Common Stock and Common Stock, in the aggregate, are beneficially owned by Immediate Family Members and/or Permitted Transferees.

14. Fair Value Measures

The Company is required to categorize both financial and nonfinancial assets and liabilities based on the following fair value hierarchy. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable, and willing parties able to engage in the transaction. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The disclosure of fair value of certain financial assets and liabilities recorded at cost are as follows:

Cash and cash equivalents, accounts receivable, and accounts payable: The carrying amount approximates fair value due to the short maturity of these instruments.

Long-term debt: The carrying value of the Company's long-term debt is at its stated value. We have not elected to carry our long-term debt at fair value. Fair values for debt are based on quoted market prices or published forward

interest rate curves, which are level 2 inputs. Estimated fair values are management's estimates, which is a level 3 input; however, when there is no readily available market data, the estimated fair values may not represent the amounts that could be realized in a current transaction, and the fair values could change significantly. The fair value of the Company's debt is sensitive to changes in the general level of U.S. interest rates. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes. A one percent (1%) decrease in interest rates would increase the net fair value of the Company's debt by \$23,000 at June 1, 2019. The fair value and carrying value of the Company's long-term debt were as follows (in thousands):

	June 1, 2019		June 2, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Note payable	\$ 1,283	\$ 1,309	\$ 4,750	\$ 4,732
Long-term leases	1,054	940	1,340	1,171
	<u>\$ 2,337</u>	<u>\$ 2,249</u>	<u>\$ 6,090</u>	<u>\$ 5,903</u>

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In accordance with the fair value hierarchy described above, the following table shows the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis as of June 1, 2019 and June 2, 2018 (in thousands):

	June 1, 2019			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
				Total Balance
Assets				
US government and agency obligations	\$ —	\$ 30,974	\$ —	\$ 30,974
Municipal bonds	—	50,353	—	50,353
Certificates of deposits	—	6,148	—	6,148
Commercial paper	—	9,945	—	9,945
Corporate bonds	—	147,162	—	147,162
Asset backed securities	—	5,599	—	5,599
Mutual funds	3,357	—	—	3,357
Total assets measured at fair value	<u>\$ 3,357</u>	<u>\$ 250,181</u>	<u>\$ —</u>	<u>\$ 253,538</u>