UNITED NATURAL FOODS INC
Form 10-Q
March 09, 2017

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended January 28, 2017

OR

_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 000-21531
UNITED NATURAL FOODS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	05-0376157
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
313 Iron Horse Way, Providence, RI	02908
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (401) 528-8634

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 X 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 X No _

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

Large accelerated filer X	Accelerated filer _
Non-accelerated filer _ (Do not check if a smaller reporting company)	Smaller reporting company _

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

As of March 3, 2017 there were 50,592,627 shares of the registrant's Common Stock, $0.01 par value per share, outstanding.

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Item 1. Financial Statements

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In thousands, except for per share data)

	January 28, 2017	July 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$30,658	$18,593
Accounts receivable, less allowances of $9,260 and $9,638	514,870	489,708
Inventories	992,551	1,021,663
Deferred income taxes	35,225	35,228
Prepaid expenses and other current assets	65,094	45,998
Total current assets	1,638,398	1,611,190
Property & equipment, net	604,597	616,605
Goodwill	370,393	366,168
Intangible assets, less accumulated amortization of $41,763 and $34,315	215,732	222,314
Other assets	40,883	35,878
Total assets	$2,870,003	$2,852,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$449,539	$445,430
Accrued expenses and other current liabilities	144,532	162,438
Current portion of long-term debt	11,989	11,854
Total current liabilities	606,060	619,722
Notes payable	393,608	426,519
Deferred income taxes	95,669	95,220
Other long-term liabilities	28,598	29,451
Long-term debt, excluding current portion	155,835	161,739
Total liabilities	1,279,770	1,332,651
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, authorized 5,000 shares; issued none	—	—
Common stock, par value $0.01 per share, authorized 100,000 shares; issued and outstanding 50,592 and 50,383	506	504
Additional paid-in capital	447,737	436,167
Accumulated other comprehensive loss	(17,921)	(22,379)
Retained earnings	1,159,911	1,105,212
Total stockholders' equity	1,590,233	1,519,504
Total liabilities and stockholders' equity	$2,870,003	$2,852,155

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(In thousands, except for per share data)

	13-Week Period Ended		26-Week Period Ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net sales	$2,285,518	$2,047,712	$4,563,882	$4,124,361
Cost of sales	1,940,573	1,750,194	3,869,921	3,512,906
Gross profit	344,945	297,518	693,961	611,455
Operating expenses	298,674	253,830	594,351	511,054
Restructuring and asset impairment expenses	—	1,985	—	4,794
Total operating expenses	298,674	255,815	594,351	515,848
Operating income	46,271	41,703	99,610	95,607
Other expense (income):				
Interest expense	4,441	3,602	8,963	7,350
Interest income	(97)	(398)	(196)	(550)
Other expense (income), net	(101)	757	282	930
Total other expense, net	4,243	3,961	9,049	7,730
Income before income taxes	42,028	37,742	90,561	87,877
Provision for income taxes	16,546	15,059	35,862	35,063
Net income	$25,482	$22,683	$54,699	$52,814
Basic per share data:				
Net income	$0.50	$0.45	$1.08	$1.05
Weighted average basic shares of common stock outstanding	50,587	50,326	50,531	50,260
Diluted per share data:				
Net income	$0.50	$0.45	$1.08	$1.05
Weighted average diluted shares of common stock outstanding	50,755	50,388	50,677	50,351

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In thousands)

	13-Week Period Ended		26-Week Period Ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Net income	$25,482	$ 22,683	$54,699	$ 52,814
Other comprehensive income (loss):				
Change in fair value of swap agreements, net of tax	3,483	(949)	5,078	(1,939)
Foreign currency translation adjustments	1,281	(4,505)	(620)	(4,444)
Total other comprehensive income (loss)	4,764	(5,454)	4,458	(6,383)
Total comprehensive income	$30,246	$ 17,229	$59,157	$ 46,431

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (unaudited)
(In thousands)

	Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balances at July 30, 2016	50,383	$ 504	$436,167	$ (22,379)	$1,105,212	$1,519,504
Stock option exercises and restricted stock vestings, net of tax	209	2	(1,028)			(1,026)
Share-based compensation			14,011			14,011
Tax deficit associated with stock plans			(1,413)			(1,413)
Fair value of swap agreements, net of tax				5,078		5,078
Foreign currency translation				(620)		(620)
Net income					54,699	54,699
Balances at January 28, 2017	50,592	$ 506	$447,737	$ (17,921)	$1,159,911	1,590,233

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	26-Week Period Ended	
	January 28, 2017	January 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$54,699	$ 52,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,458	32,847
Share-based compensation	14,011	9,424
Loss on disposals of property and equipment	395	415
Excess tax deficit (benefit) from share-based payment arrangements	1,413	(432)
Restructuring and asset impairment	—	480
Provision for doubtful accounts	3,217	4,832
Non-cash interest income	(24)	(102)
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(26,140)	12,577
Inventories	30,759	39,130
Prepaid expenses and other assets	(20,514)	(16,729)
Accounts payable	9,363	(16,589)
Accrued expenses and other liabilities	(12,728)	5,944
Net cash provided by operating activities	96,909	124,611
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(22,674)	(20,472)
Purchases of acquired businesses, net of cash acquired	(9,982)	(31)
Proceeds from disposals of property and equipment	18	57
Long-term investment	(2,000)	—
Net cash used in investing activities	(34,638)	(20,446)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(5,658)	(5,788)
Proceeds from borrowings under revolving credit line	136,787	214,549
Repayments of borrowings under revolving credit line	(169,618)	(301,243)
Decrease in bank overdraft	(9,076)	(16,480)
Proceeds from exercise of stock options	165	1,172
Payment of employee restricted stock tax withholdings	(1,191)	(1,603)
Excess tax (deficit) benefit from share-based payment arrangements	(1,413)	432
Capitalized debt issuance costs	(180)	—
Net cash used in financing activities	(50,184)	(108,961)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(22)	(102)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,065	(4,898)
Cash and cash equivalents at beginning of period	18,593	17,380
Cash and cash equivalents at end of period	$30,658	$ 12,482
Supplemental disclosures of cash flow information:		
Cash paid for interest	$8,963	$ 7,891
Cash paid for federal and state income taxes, net of refunds	$45,944	$ 46,896

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
January 28, 2017 (unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Business

United Natural Foods, Inc. and its subsidiaries (the “Company”) is a leading distributor and retailer of natural, organic and specialty products. The Company sells its products primarily throughout the United States and Canada.

(b) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information, including the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and note disclosures normally required in complete financial statements prepared in conformity with accounting principles generally accepted in the United States have been condensed or omitted. In the Company’s opinion, these condensed consolidated financial statements include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. The results of operations for interim periods, however, may not be indicative of the results that may be expected for a full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 30, 2016.

Net sales consist primarily of sales of natural, organic and specialty products to retailers, adjusted for customer volume discounts, returns and allowances. Net sales also include amounts charged by the Company to customers for shipping and handling and fuel surcharges. The principal components of cost of sales include the amounts paid to manufacturers and growers for product sold, plus the cost of transportation necessary to bring the product to the Company’s distribution facilities. Cost of sales also includes amounts incurred by the Company’s manufacturing subsidiary, United Natural Trading LLC, which does business as Woodstock Farms Manufacturing, for inbound transportation costs and depreciation of manufacturing equipment offset by consideration received from suppliers in connection with the purchase or promotion of the suppliers’ products. Operating expenses include salaries and wages, employee benefits, warehousing and delivery, selling, occupancy, insurance, administrative, share-based compensation and amortization expense. Operating expenses also include depreciation expense related to the wholesale and retail divisions. Other expense (income) includes interest on outstanding indebtedness, interest income and miscellaneous income and expenses.

As noted above, the Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are generally recorded in cost of sales, whereas shipping and handling costs for selecting, quality assurance, and outbound transportation are recorded in operating expenses. Outbound shipping and handling costs, including allocated employee benefit expenses, totaled $129.0 million and $112.8 million for the second quarter of fiscal 2017 and 2016, respectively. Outbound shipping and handling costs, including allocated employee benefit expenses, totaled $255.9 million and $227.4 million for the first 26 weeks of fiscal 2017 and 2016, respectively.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, Intangibles, Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU will no longer require a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and fair value of the reporting unit. The ASU is effective for public companies with interim periods and fiscal years beginning after December 15, 2019, which for the Company will be the first quarter of the fiscal year ending July 31, 2021, with early adoption permitted. We do not expect the adoption of this guidance to have a significant impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. This ASU will change aspects of accounting for share-based payment award transactions including accounting for income taxes, the classification of excess tax benefits and the classification of employee taxes paid when shares are withheld for tax-withholding purposes on the statement of cash flows, forfeitures, and minimum statutory tax withholding requirements. The ASU is effective for public companies with interim periods and fiscal years beginning after December 15, 2016, which for the Company will be the first quarter of the fiscal year ending July 28, 2018. Early adoption is permitted provided that the entire ASU is adopted. The Company has not yet adopted this standard, but if the Company had adopted this standard in the first quarter of fiscal 2017, the result would have been a reclassification from additional paid-in capital to income tax expense. For the second quarter of fiscal 2017 and 2016, the result would have been de minimus. For the first 26 weeks of fiscal 2017 the result would have increased current year income tax expense by $1.4 million. For the first 26 weeks of fiscal 2016 the result would have decreased current year income tax expense by $0.2 million.

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842). The objective of this ASU is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. In addition, this ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The ASU is effective for public companies with interim and annual periods in fiscal years beginning after December 15, 2018, which for the Company will be the first quarter of the fiscal year ending August 1, 2020, with early adoption permitted. We are currently reviewing the provisions of the new standard and evaluating its impact on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-1, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, which will change the income statement impact of equity investments, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The ASU is effective for public companies with interim and annual periods in fiscal years beginning after December 15, 2017, which for the Company will be the first quarter of the fiscal year ending August 3, 2019. We do not expect the adoption of this guidance to have a significant impact on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The new pronouncement is effective for public companies with annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which for the Company will be the first quarter of the fiscal year ending July 28, 2018. The Company expects to adopt this new guidance in the first quarter of fiscal 2018. If the Company had adopted this standard in the second quarter of fiscal 2017, the result would have been a reclassification from current deferred income tax assets to noncurrent deferred income tax liabilities of $35.2 million as of January 28, 2017 and July 30, 2016.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, (Topic 606): Deferral of the Effective Date deferring the adoption of previously issued guidance published in May 2014, ASU No. 2014-09, Revenue from Contracts with Customers, (Topic 606). The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The collective guidance is effective for public companies with annual periods, and interim periods within those periods, beginning after December 15, 2017, which for the Company will be the first quarter of the fiscal year ending August 3, 2019. The Company expects to adopt this new guidance in fiscal year 2019 but has not yet selected a transition method. We are in the process of evaluating the impact of the pending adoption of this guidance on the Company's financial reporting.

3. ACQUISITIONS

Wholesale Segment - Wholesale Distribution Acquisitions

Nor-Cal Produce, Inc. On March 31, 2016 the Company acquired all of the outstanding equity securities of Nor-Cal Produce, Inc. ("Nor-Cal") and an affiliated entity as well as certain real estate. Founded in 1972, Nor-Cal is a distributor of conventional and organic produce and other fresh products in Northern California, with primary operations located in West Sacramento, California. Total cash consideration related to this acquisition was approximately $68.6 million, subject to certain customary post-closing adjustments. The identifiable intangible assets recorded based on provisional valuations include customer lists of $30.3 million, a tradename with an estimated fair value of $1.0 million, and a non-compete with an estimated fair value of $0.5 million, which are being amortized on a straight-line basis over estimated useful lives of approximately thirteen years, five years, and five years, respectively. The preliminary fair value of the identifiable intangible assets acquired was determined by using an income approach. Significant assumptions utilized in the income approach were based on company-specific and market participant information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The goodwill of $37.4 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized. During the second quarter of fiscal 2017, the Company recorded a $2.9 million adjustment to the preliminary opening balance sheet which decreased goodwill and deferred income tax liabilities.

The Company is in the process of finalizing certain post-closing net working capital adjustments, and has recorded adjustments in the current fiscal year. The following table summarizes the consideration paid for the acquisition and the amounts of assets acquired and liabilities assumed as of the acquisition date:

(in thousands)	Preliminary as of July 30, 2016	Adjustments in Current Fiscal Year	Preliminary as of January 28, 2017
Accounts receivable	$ 8,483	$ —	$ 8,483
Inventories	1,902	—	1,902
Property and equipment	10,029	—	10,029
Other assets	125	—	125
Customer relationships	30,300	—	30,300
Tradename	1,000	—	1,000
Non-compete	500	—	500
Goodwill	40,342	(2,909)	37,433
Total assets	$ 92,681	$ (2,909)	$ 89,772
Liabilities	24,101	(2,909)	21,192
Total purchase price	$ 68,580	$ —	$ 68,580

Haddon House Food Products, Inc. On May 13, 2016 the Company acquired all of the outstanding equity interests of Haddon House Food Products, Inc. (“Haddon”) and certain affiliated entities and real estate. Haddon is a well-respected distributor and merchandiser of natural and organic and gourmet ethnic products throughout the Eastern United States. Haddon has a diverse, multi-channel customer base including conventional supermarkets, gourmet food stores and independently owned product retailers. Total cash consideration related to this acquisition was approximately $217.5 million. The identifiable intangible assets recorded based on provisional valuations include customer relationships with an estimated fair value of $62.7 million, the Haddon tradename with an estimated fair value of $0.7 million, non-compete agreements with an estimated fair value of $0.7 million, and a trademark asset related to Haddon owned branded product lines with an estimated fair value of $2.0 million. The customer relationship intangible asset is currently being amortized on a straight-line basis over an estimated useful life of approximately thirteen years, the Haddon tradename is being amortized over an estimated useful life of approximately three years, the non-compete agreements that the Company received from the owners of Haddon are being amortized over the five-year term of the agreements, and the Haddon trademark asset associated with its branded product lines is estimated to have an indefinite useful life. The preliminary fair value of the identifiable intangible assets acquired was determined by using an income approach. Significant assumptions utilized in the income approach were based on company-specific and market participant information and projections, which are not observable in the market and are thus considered Level 3 measurements as defined by authoritative guidance. The goodwill of $43.6 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized.

The Company is in the process of finalizing the opening balance sheet, and has recorded adjustments in the current fiscal year. During the second quarter of fiscal 2017, the Company recorded a reduction to goodwill of approximately $1.6 million related to a net working capital adjustment. The following table summarizes the consideration paid for the acquisition and the amounts of assets acquired and liabilities assumed as of the acquisition date:

(in thousands)	Preliminary as of July 30, 2016	Adjustments in Current Fiscal Year	Preliminary as of January 28, 2017
Accounts receivable	$ 40,434	$ (300)	$ 40,134
Other receivable	3,621	—	3,621
Inventories	46,138	302	46,440
Prepaid expenses and other current assets	1,645	99	1,744
Property and equipment	54,501	—	54,501
Other assets	280	—	280
Customer relationships	62,700	—	62,700
Tradename	700	—	700
Non-compete	700	—	700
Other intangible assets	2,000	—	2,000
Goodwill	45,851	(2,266)	43,585
Total assets	$ 258,570	$ (2,165)	$ 256,405
Liabilities	39,510	(600)	38,910
Total purchase price	$ 219,060	$ (1,565)	$ 217,495

Gourmet Guru, Inc. On August 10, 2016, the Company acquired all of the outstanding stock of Gourmet Guru, Inc. ("Gourmet Guru"). Founded in 1996, Gourmet Guru is a distributor and merchandiser of fresh and organic food focusing on new and emerging brands. Total cash consideration related to this acquisition was approximately $10.0 million, subject to certain customary post-closing adjustments. During the second quarter of fiscal 2017, the Company recorded a reduction to goodwill of approximately $0.1 million related to a net working capital adjustment. The fair value of identifiable intangible assets acquired was determined by using an income approach. The identifiable intangible asset recorded based on a provisional valuation consisted of customer lists of $1.0 million, which are being amortized on a straight-line basis over an estimated useful life of approximately two years. The goodwill of $9.6 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized.

Cash paid for Nor-Cal, Haddon and Gourmet Guru was financed through borrowings under the Company’s amended and restated revolving credit facility. Acquisition costs were de minimus for the second quarter and first 26 weeks of fiscal 2017 and have been expensed as incurred within "operating expenses" in the Condensed Consolidated Statements of Income. The results of the acquired businesses' operations have been included in the consolidated financial statements since the applicable date of acquisitions. Operations for these acquisitions have been combined with the Company's existing business; therefore, the Company does not record the expenses separately from the rest of the wholesale distribution business and results are not separable.

4. RESTRUCTURING ACTIVITIES AND ASSET IMPAIRMENTS

2016 Cost-Saving Measures

During the fourth quarter of fiscal 2015, the Company announced that its contract as a distributor to Albertsons Companies, Inc., which includes the Albertsons, Safeway and Eastern Supermarket chains, would terminate on September 20, 2015 rather than upon the original contract end date of July 31, 2016. During fiscal 2016, the Company implemented Company-wide cost-saving measures in response to this lost business which resulted in total restructuring costs of $4.4 million, all of which was recorded during the first and second quarters of fiscal 2016. There were no additional costs recorded during the first 26 weeks of fiscal 2017. These initiatives resulted in a reduction of employees, the majority of which were terminated during the first quarter of fiscal 2016, across the Company. The total work-force reduction charge of $3.4 million recorded during fiscal 2016 was primarily related to severance and fringe benefits. In addition to workforce reduction charges, the Company recorded $0.9 million during fiscal 2016 for costs due to an early lease termination and facility closure and operational transfer costs associated with these initiatives.

Earth Origins Market

During the fourth quarter of fiscal 2016, the Company recorded restructuring and impairment charges of $0.8 million related to the Company's Earth Origins Market ("Earth Origins") retail business. The Company made the decision during the fourth quarter of fiscal 2016 to close two of its stores, one store located in Florida and the other located in Maryland, which resulted in restructuring

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costs of $0.5 million primarily related to severance and closure costs. The stores were closed during the first quarter of fiscal 2017. In addition, the restructuring charge includes an impairment charge of $0.3 million on long-lived assets which was recorded during the fourth quarter of fiscal 2016.

Canadian Facility Closure

During fiscal 2015, the Company ceased operations at its Canadian facility located in Scotstown, Quebec. In connection with this closure, the Company recognized restructuring and impairment charges of $0.8 million during the first and second quarters of fiscal 2015. Additionally, during the second quarter of fiscal 2016, the Company recognized an additional impairment charge of $0.4 million related to the long lived assets at the facility.

The following is a summary of the restructuring costs the Company recorded in fiscal 2016, as well as the remaining liability as of January 28, 2017 (in thousands):

	Restructuring Costs	Cash Payments	Restructuring Cost Liability as of January 28, 2017
Severance	$ 3,443	$ (3,424)	$ 19
Early lease termination and facility closing costs	368	(368)	—
Operational transfer costs	570	(570)	—
Earth Origins:			
Severance	41	(33)	8
Store closing costs	443	(338)	105
Total	$ 4,865	$ (4,733)	$ 132

5. EARNINGS PER SHARE

The following is a reconciliation of the basic and diluted number of shares used in computing earnings per share (in thousands):

	13-Week Period Ended		26-Week Period Ended	
	January 28, 2017	January 30, 2016	January 28, 2017	January 30, 2016
Basic weighted average shares outstanding	50,587	50,326	50,531	50,260
Net effect of dilutive stock awards based upon the treasury stock method	168	62	146	91
Diluted weighted average shares outstanding	50,755	50,388	50,677	50,351

For the second quarters of fiscal 2017 and 2016, there were 36,986 and 171,296 anti-dilutive share-based awards outstanding, respectively. For the first 26 weeks of fiscal 2017 and 2016, there were 40,862 and 100,957 anti-dilutive share-based awards outstanding, respectively. These anti-dilutive share-based awards were excluded from the calculation of diluted earnings per share.

6. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Hedging of Interest Rate Risk

The Company manages its debt portfolio with interest rate swaps from time to time to achieve an overall desired position of fixed and floating rates. Details of outstanding swap agreements as of January 28, 2017, which are all pay fixed and receive floating, are as follows:

Swap Maturity	Notional Value (in millions)	Pay Fixed Rate	Receive Floating Rate	Floating Rate Reset Terms
August 3, 2022	$ 140.0	1.7950 %	One-Month LIBOR	Monthly
June 9, 2019	$ 50.0	0.8725 %	One-Month LIBOR	Monthly
April 29, 2021	$ 25.0	1.0650 %	One-Month LIBOR	Monthly
June 24, 2019	$ 50.0	0.7265 %	One-Month LIBOR	Monthly
April 29, 2021	$ 25.0	0.9260 %	One-Month LIBOR	Monthly

Interest rate swap agreements are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company’s interest rate swap agreements are designated as cash flow hedges at January 28, 2017 and are reflected at their fair value of $2.5 million which is included in "Other Assets" in the Condensed Consolidated Balance Sheet.

The Company uses the “Hypothetical Derivative Method” described in Accounting Standards Codification ("ASC") 815 for quarterly prospective and retrospective assessments of hedge effectiveness, as well as for measurements of hedge ineffectiveness. Under this method, the Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings in interest income when the hedged transactions affect earnings. Ineffectiveness resulting from the hedge is recorded as a gain or loss in the condensed consolidated statement of income as part of other income. The Company did not have any hedge ineffectiveness recognized in earnings during the second quarter and first 26 weeks of fiscal 2017. The Company also monitors the risk of counterparty default on an ongoing basis and noted that the counterparties are reputable financial institutions.

Fuel Supply Agreements

From time to time the Company is a party to fixed price fuel supply agreements. As of January 28, 2017, the Company had not entered into any such agreements. During the fiscal year ended July 30, 2016, the Company entered into several agreements to purchase a portion of its diesel fuel each month at fixed prices through December 31, 2016. These fixed price fuel agreements qualified for the "normal purchase" exception under ASC 815; therefore, the fuel purchases under these contracts were expensed as incurred and included within operating expenses.

Financial Instruments

The following table provides the fair value hierarchy for financial assets and liabilities measured on a recurring basis as of January 28, 2017 and July 30, 2016:

	Fair Value at January 28, 2017			Fair Value at July 30, 2016		
(In thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Interest Rate Swap	—	$ 2,500	—	—	—	—
Liabilities:						
Interest Rate Swap	—	—	—	—	$ (5,917)	—

The fair value of the Company's other financial instruments including cash and cash equivalents, accounts receivable, notes receivable, accounts payable and certain accrued expenses are derived using Level 2 inputs and approximate carrying amounts due to the short-term nature of these instruments. The fair value of notes payable approximate carrying amounts as they are variable rate instruments. The carrying amount of notes payable approximates fair value as interest rates on the credit facility approximates current market rates (Level 2 criteria).

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies taking into account the instruments' interest rate, terms, maturity date and collateral, if any, in comparison to the Company's incremental borrowing rate for similar financial instruments and are therefore deemed Level 2 inputs. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

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(In thousands)	January 28, 2017 Carrying Value	January 28, 2017 Fair Value	July 30, 2016 Carrying Value	July 30, 2016 Fair Value
Liabilities:				
Long-term debt, including current portion	$167,824	$174,992	$173,593	$182,790

7. BUSINESS SEGMENTS

The Company has several operating divisions aggregated under the wholesale segment, which is the Company's only reportable segment. These operating divisions have similar products and services, customer channels, distribution methods and historical margins. The wholesale segment is engaged in the national distribution of natural, organic and specialty foods, produce and related products in the United States and Canada. The Company has additional operating divisions that do not meet the quantitative thresholds for reportable segments and are therefore aggregated under the caption of "Other." "Other" includes a retail division, which engages in the sale of natural foods and related products to the general public through retail storefronts on the east coast of the United States, a manufacturing division, which engages in importing, roasting, packaging, and distributing of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections, and the Company's branded product lines. "Other" also includes certain corporate operating expenses that are not allocated to operating divisions and are necessary to operate the Company's headquarters located in Providence, Rhode Island, which include depreciation, salaries, retainers, and other related expenses of officers, directors, corporate finance (including professional services), information technology, governance, legal, human resources and internal audit. As the Company continues to expand its business and serve its customers through our national platform, these corporate expense amounts have increased, which is the primary driver behind the increasing operating losses within the "Other" category below. Non-operating expenses that are not allocated to the operating divisions are under the caption of "Unallocated Expenses." The Company does not record its revenues for financial reporting purposes by product group, and it is therefore impracticable for the Company to report them accordingly.

Beginning in the first quarter of fiscal 2017, a change in how the Company's chief operating decision maker assesses performance and allocates resources resulted in a change in how the Company allocates a portion of its corporate operating expenses, which were previously reported under the caption of "Other," in order to better support segment operations. The following table sets forth certain financial information for the Company's business segments. Prior year amounts have been reclassified to conform to current year presentation and include the impact of a change in the allocation of certain corporate operating expenses between the captions "Other" and "Wholesale." The amount reclassified is not considered to be material and is consistent with management's assessment of segment performance in fiscal 2017.

The following table reflects business segment information for the periods indicated (in thousands):

	Wholesale	Other	Eliminations	Unallocated	Consolidated
13-Week Period Ended January 28, 2017:					
Net sales	$2,271,289	$51,377	$ (37,148)	$ —	$2,285,518
Operating income (loss)	52,562	(6,518)	227	—	46,271
Interest expense	—	—	—	4,441	4,441
Interest income	—	—	—	(97)	(97)
Other, net	—	—	—	(101)	(101)
Income before income taxes					42,028
Depreciation and amortization	20,587	656	—	—	21,243
Capital expenditures	12,374	1,102	—	—	13,476
Goodwill	352,369	18,024	—	—	370,393
Total assets	2,677,578	220,598	(28,173)	—	2,870,003
13-Week Period Ended January 30, 2016:					
Net sales	$2,029,351	$53,685	$ (35,324)	$ —	$2,047,712
Restructuring and asset impairment expenses	1,492	493	—	—	1,985
Operating income (loss)	45,118	(4,018)	603	—	41,703
Interest expense	—	—	—	3,602	3,602
Interest income	—	—	—	(398)	(398)
Other, net	—	—	—	757	757
Income before income taxes					37,742
Depreciation and amortization	15,472	671	—	—	16,143
Capital expenditures	12,175	709	—	—	12,884
Goodwill	247,499	17,731	—	—	265,230
Total assets	2,300,915	203,962	(17,859)	—	2,487,018

	Wholesale	Other	Eliminations	Unallocated	Consolidated
26-Week Period Ended January 28, 2017:					
Net sales	$4,532,189	$109,117	$ (77,424)	$ —	$4,563,882
Operating income (loss)	111,225	(11,686)	71	—	99,610
Interest expense	—	—	—	8,963	8,963
Interest income	—	—	—	(196)	(196)
Other, net	—	—	—	282	282
Income before income taxes					90,561
Depreciation and amortization	41,278	1,180	—	—	42,458
Capital expenditures	20,729	1,945	—	—	22,674
Goodwill	352,369	18,024	—	—	370,393
Total assets	2,677,578	220,598	(28,173)	—	2,870,003