UNITED NATURAL FOODS INC
Form 10-Q
June 07, 2018

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 April 28, 2018
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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes _ No X

As of May 30, 2018 there were 50,458,534 shares of the registrant’s common stock, $0.01 par value per share, outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	April 28, 2018	July 29, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$21,758	$15,414
Accounts receivable, less allowances of $18,185 and $13,939	635,190	525,636
Inventories	1,195,860	1,031,690
Deferred income taxes	—	40,635
Prepaid expenses and other current assets	41,953	49,295
Total current assets	1,894,761	1,662,670
Property & equipment, net	574,197	602,090
Goodwill	362,916	371,259
Intangible assets, less accumulated amortization of $60,888 and $49,926	196,979	208,289
Other assets	49,993	42,255
Total assets	$3,078,846	$2,886,563
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$543,631	$534,616
Accrued expenses and other current liabilities	176,127	157,243
Current portion of long-term debt	12,423	12,128
Total current liabilities	732,181	703,987
Notes payable	329,000	223,612
Deferred income taxes	37,348	98,833
Other long-term liabilities	27,274	28,347
Long-term debt, excluding current portion	140,740	149,863
Total liabilities	1,266,543	1,204,642
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; 51,006 shares issued and 50,441 shares outstanding at April 28, 2018, 50,622 shares issued and outstanding at July 29, 2017	510	506
Additional paid-in capital	479,220	460,011
Treasury stock at cost	(22,237)	—
Accumulated other comprehensive loss	(12,634)	(13,963)
Retained earnings	1,367,444	1,235,367
Total stockholders' equity	1,812,303	1,681,921
Total liabilities and stockholders' equity	$3,078,846	$2,886,563

See Notes to Condensed Consolidated Financial Statements.

3

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

	13-Week Period Ended		39-Week Period Ended	
	April 28, 2018	April 29, 2017	April 28, 2018	April 29, 2017
Net sales	$2,648,879	$2,369,556	$7,634,435	$6,933,438
Cost of sales	2,240,792	2,003,195	6,487,610	5,873,116
Gross profit	408,087	366,361	1,146,825	1,060,322
Operating expenses	325,779	297,469	957,964	891,820
Restructuring and asset impairment expenses	151	3,946	11,393	3,946
Total operating expenses	325,930	301,415	969,357	895,766
Operating income	82,157	64,946	177,468	164,556
Other expense (income):				
Interest expense	4,468	4,225	12,368	13,188
Interest income	(121)	(82)	(308)	(278)
Other expense (income), net	(24)	478	(1,305)	760
Total other expense, net	4,323	4,621	10,755	13,670
Income before income taxes	77,834	60,325	166,713	150,886
Provision for income taxes	25,943	23,738	33,831	59,600
Net income	$51,891	$36,587	$132,882	$91,286
Basic per share data:				
Net income	$1.03	$0.72	$2.63	$1.81
Weighted average basic shares of common stock outstanding	50,424	50,601	50,563	50,554
Diluted per share data:				
Net income	$1.02	$0.72	$2.61	$1.80
Weighted average diluted shares of common stock outstanding	50,751	50,801	50,816	50,718

See Notes to Condensed Consolidated Financial Statements.

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

	13-Week Period Ended		39-Week Period Ended	
	April 28, 2018	April 29, 2017	April 28, 2018	April 29, 2017
Net income	$51,891	$36,587	$132,882	$91,286
Other comprehensive income (loss):				
Change in fair value of swap agreements, net of tax	729	125	3,649	5,203
Foreign currency translation adjustments	(3,159)	(2,611)	(2,320)	(3,231)
Total other comprehensive income (loss)	(2,430)	(2,486)	1,329	1,972
Total comprehensive income	$49,461	$34,101	$134,211	$93,258

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances at July 29, 2017	50,622	$ 506	—	$—	$460,011	$ (13,963)	$1,235,367	$1,681,921
Cumulative effect of change in accounting principle					1,314		(805)	509
Stock option exercises and restricted stock vestings, net of tax	384	4			(3,924)			(3,920)
Share-based compensation					21,712			21,712
Repurchase of common stock			565	(22,237)				(22,237)
Other					107			107
Fair value of swap agreements, net of tax						3,649		3,649
Foreign currency translation						(2,320)		(2,320)
Net income							132,882	132,882
Balances at April 28, 2018	51,006	$ 510	565	$(22,237)	$479,220	$ (12,634)	$1,367,444	$1,812,303

See Notes to Condensed Consolidated Financial Statements.

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

	39-Week Period Ended	
	April 28, 2018	April 29, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$132,882	$91,286
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	65,982	63,930
Share-based compensation	21,712	18,702
Loss on disposals of property and equipment	111	825
Gain associated with disposal of investments	(699)	—
Excess tax deficit from share-based payment arrangements	—	1,403
Restructuring and asset impairment	3,370	711
Goodwill impairment	7,872	—
Deferred income taxes	(21,866)	(160)
Change in accounting estimate	(20,909)	—
Provision for doubtful accounts	8,805	4,847
Non-cash interest expense	594	79
Changes in assets and liabilities, net of acquired businesses:		
Accounts receivable	(119,149)	(61,820)
Inventories	(165,049)	(19,758)
Prepaid expenses and other assets	10,317	(9,135)
Accounts payable	6,396	79,023
Accrued expenses and other liabilities	14,465	(6,836)
Net cash (used in) provided by operating activities	(55,166)	163,097
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(29,646)	(40,004)
Purchase of businesses, net of cash acquired	(29)	(9,198)
Proceeds from disposals of property and equipment	47	34
Proceeds from disposal of investments	756	—
Long-term investment	(3,397)	(2,000)
Net cash used in investing activities	(32,269)	(51,168)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(9,043)	(8,531)
Repurchase of common stock	(22,237)	—
Proceeds from borrowings under revolving credit line	500,061	154,412
Repayments of borrowings under revolving credit line	(394,671)	(276,443)
Increase in bank overdraft	23,890	19,075
Proceeds from exercise of stock options	602	165
Payment of employee restricted stock tax withholdings	(4,522)	(1,295)
Excess tax deficit from share-based payment arrangements	—	(1,403)
Capitalized debt issuance costs	—	(180)
Net cash provided by (used in) financing activities	94,080	(114,200)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(301)	(203)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,344	(2,474)
Cash and cash equivalents at beginning of period	15,414	18,593

Cash and cash equivalents at end of period	$21,758	$16,119
Supplemental disclosures of cash flow information:		
Cash paid for interest	$12,368	$13,188
Cash paid for federal and state income taxes, net of refunds	$45,021	$58,199

See Notes to Condensed Consolidated Financial Statements.

UNITED NATURAL FOODS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 28, 2018 (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. However, the results of operations for interim periods 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 29, 2017.

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 suppliers for product sold, plus the cost of transportation necessary to bring the product to the Company’s distribution facilities, offset by consideration received from suppliers in connection with the purchase or promotion of the suppliers' products. 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 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, amortization expense, and depreciation expense related to the wholesale and retail divisions. Other expense (income) includes interest on outstanding indebtedness, including the financing obligation related to our Aurora, Colorado distribution center and the lease for office space for our corporate headquarters in Providence, Rhode Island, 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 $148.4 million and $129.2 million for the third quarter of fiscal 2018 and 2017, respectively. Outbound shipping and handling costs, including allocated employee benefit expenses, totaled $432.8 million and $385.1 million for the first 39 weeks of fiscal 2018 and 2017, respectively.

(c) Change in Accounting Estimate

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires the Company to make estimates and judgments that affect the amounts reported in its condensed consolidated financial statements and the accompanying notes. Actual results may differ materially from the Company's estimates.

The Company has experienced growth in customer demand since the start of fiscal 2018 and for the 13 and 39-week periods ended April 28, 2018, net sales increased approximately 11.8% and 10.1%, respectively, when compared to the comparable periods in fiscal 2017. Additionally, inventories have increased approximately 15.9% since July 29, 2017. During the first quarter of fiscal 2018, the Company opened its shared services center which established a centralized processing function for certain of its legal entities. As a result of the aforementioned growth in net sales and inventory and the changes in processing and the resulting increase in the Company’s estimate of its accrual for inventory purchases the Company initiated a review of its vendor invoicing processes and undertook a review of its estimate of its accrual for inventory purchases.

The Company typically generates purchase orders to initiate the procurement process for the products it sells, and orders are subsequently fulfilled by suppliers and delivered to the Company. In certain situations, inventory purchased by the Company may be delivered to the Company prior to the supplier sending the Company an associated invoice. When the Company receives inventory from a supplier before the supplier invoice is received, the Company customarily accrues for liabilities associated with this received but not invoiced inventory as its accrual for inventory purchases. During the 13 and 39-week periods ended April 28, 2018 the Company experienced an increased volume in its accrual for inventory purchases. When the Company receives a vendor invoice subsequent to a period end, the invoice is reconciled to the accrual for inventory purchases account. Due to the large volumes of orders and SKUs, and pricing and quantity differences between the vendor invoice and the Company's records, at times only a portion of the accrual for inventory purchases is able to be matched to the vendor invoice. Historically, the Company relieved any unresolved and partially matched amounts in its accrual for inventory purchases following when such amounts were substantially matched or aged past twelve months as it was determined that a liability was no longer considered probable at that point.

In the third quarter of fiscal 2018, the Company finalized its analysis and review of its accrual for inventory purchases, including a historical data analysis of unmatched and partially matched amounts that were aged greater than twelve months and the ultimate resolution of such aged accruals. Based on its analysis, the Company determined that it could reasonably estimate the outcome of its partially matched vendor invoices upon receipt of such invoice rather than when the amount was aged greater than twelve months and a liability was no longer considered probable. As a result of this change in estimate, accounts payable was reduced by $20.9 million, resulting in an increase to net income of $13.9 million, or $0.27 per diluted share, for both the 13 and 39-weeks ended April 28, 2018.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. This ASU is effective for all entities for annual and interim 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 consolidated financial statements.

In December 2017, the United States ("U.S.") government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "TCJA"). The SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cut and Jobs Act ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. Refer to Note 8, Income Taxes, for disclosure regarding the Company's implementation of SAB 118.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which changes the recognition and presentation requirements of hedge accounting, including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line item as the hedged item. The ASU also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged item in fair value hedges of interest rate risk, reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method and reducing the risk of a material error correction if a company applies the shortcut method inappropriately. This ASU is effective for public companies 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 consolidated financial statements, however, the Company plans to early adopt this standard in the fourth quarter of fiscal 2018.

In March 2016, the FASB issued ASU 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 has changed 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 Company adopted the new standard in the first quarter of fiscal 2018. Accordingly, the Company will account for excess tax benefits or tax deficiencies related to share-based payments in its provision for income taxes as opposed to additional paid-in capital. The Company recognized a de minimis amount of income tax benefit related to excess tax benefits for share-based payments for the 13-week period ended April 28, 2018 and $0.9 million of income tax expense related to tax deficiencies for share-based payments for the 39-week period ended April 28, 2018. In addition, the Company elected to account for forfeitures as they occur and recorded a cumulative adjustment to retained earnings and additional paid-in capital as of July 30, 2017, the first day of fiscal 2018, of approximately $0.8 million and $1.3 million, respectively.

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. This ASU will require the Company to recognize most current operating lease obligations as right-of-use assets with a corresponding liability based on the present value of future operating leases, which the Company believes will result in a significant impact to its consolidated balance sheets. 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. The Company expects to adopt this standard in the first quarter of fiscal 2020 and has begun an initial assessment plan to determine the impacts of this ASU on the Company's consolidated financial statements and any necessary changes to our accounting policies, processes and controls, and, if required, our systems.

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 was the first quarter of fiscal 2018. The Company adopted this guidance on a prospective basis in the first quarter of fiscal 2018 and it resulted in a reclassification from current deferred income tax assets to noncurrent deferred income tax liabilities of $40.6 million. All future adjustments will be reported as noncurrent.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, (Topic 606), which has been updated by multiple amending ASUs and supersedes existing revenue recognition requirements. 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. Additionally, the ASU requires new, enhanced quantitative and qualitative disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. 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 new standard permits either of the following adoption methods: (i) a full retrospective application with restatement of each period presented in the financial statements with the option to elect certain practical expedients, or (ii) a retrospective application with the cumulative effect of adopting the guidance recognized

as of the date of initial application (“modified retrospective method”).
The Company will adopt this new guidance in the first quarter of fiscal 2019 and preliminarily expects to use the modified retrospective method. The Company substantially completed its assessment of the new standard in the third quarter of fiscal 2018. The Company’s assessment work consisted of scoping of revenue streams, reviewing contracts with customers, and documenting the accounting analysis and conclusions of the impacts of the ASU on the Company’s wholesale distribution and other segments. We are currently quantifying the impact of adoption and developing new policies, procedures, and internal controls for the adoption and recognition of revenue under the ASU. The Company currently believes it has isolated its areas of impact resulting from the adoption of the new standard, which include the sale of certain private label products to customers where the Company has no alternative use and has an enforceable right to payment for performance completed to date. Under the new standard, revenue for these sales will be recognized over time as opposed to at a point in time under the Company’s current policies. Although the quantification of impacts is ongoing, as a result of its assessment work to date, the Company does not expect a material quantitative impact to its consolidated financial statements as a result of adoption of the new standard. The Company expects to complete its evaluation of the new standard in the fourth quarter of fiscal 2018, which will include quantification of the impacts upon adoption and the impact to the Company’s footnote disclosures.

3. ACQUISITIONS

Wholesale Segment - Wholesale Distribution Acquisition

Gourmet Guru, Inc. On August 10, 2016, the Company acquired all of the outstanding equity securities of Gourmet Guru, Inc. ("Gourmet Guru"). 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. 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. During the first quarter of fiscal 2018, the Company recorded an increase to goodwill of approximately $0.2 million with a decrease to prepaid expenses. The goodwill of $10.3 million represents the future economic benefits expected to arise that could not be individually identified and separately recognized. During the first quarter of fiscal 2018, the Company finalized its purchase accounting related to the Gourmet Guru acquisition. Operations have been combined with the Company's existing wholesale distribution business and therefore results are not separable from the rest of the wholesale distribution business. The Company has not furnished pro forma financial information relating to this acquisition as such information is not material to the Company's financial results.

4. RESTRUCTURING ACTIVITIES AND ASSET IMPAIRMENTS

2018 Earth Origins Market. During the second quarter of fiscal 2018, the Company recorded restructuring and asset impairment expenses of $11.4 million related to the Company's Earth Origins Market retail business. The Company made the decision in the second quarter of fiscal 2018 to close three non-core, under-performing stores of its total twelve stores which resulted in restructuring costs of $0.2 million related to severance and closure costs.

Based on the decision to close these stores, coupled with the decline in results in the first half of fiscal 2018 and the future outlook as a result of competitive pressure, the Company determined that both a test for recoverability of long-lived assets and a goodwill impairment analysis should be performed. The determination of the need for a goodwill analysis was based on the assertion that it was more likely than not that the fair value of the reporting unit was below its carrying amount. As a result of both these analyses, the Company recorded a total impairment charge of $3.3 million on long-lived assets and $7.9 million to goodwill, respectively. Both of these charges were recorded in the Company's "Other" segment in the second quarter of fiscal 2018. The Company did not record any charges during the third quarter of fiscal 2018, but expects to incur additional restructuring charges primarily related to future exit costs of approximately $1.4 million during the fourth quarter of fiscal 2018.

The following is a summary of the restructuring costs the Company recorded related to Earth Origins Market in fiscal 2018, the payments and other adjustments related to these costs and the remaining liability as of April 28, 2018 (in thousands):

	Restructuring Costs Recorded in Fiscal 2018	Payments and Other Adjustments	Restructuring Cost Liability as of April 28, 2018
Severance and closure costs	$ 245	$ (17)	$ 228

2017 Cost Saving and Efficiency Initiatives. During fiscal 2017, the Company announced a restructuring program in conjunction with various cost saving and efficiency initiatives, including the planned opening of a shared services center. The Company recorded total restructuring costs of $6.9 million during the fiscal year ended July 29, 2017, all of which was recorded in the second half of fiscal 2017. Of the total restructuring costs recorded, $6.6 million was primarily related to severance and other employee separation and transition costs and $0.3 million was due to an early lease termination and facility closing costs for the Company's Gourmet Guru facility in Bronx, New York. During fiscal 2018 the Company performed an analysis on the remaining restructuring cost liability and as a result, recorded a benefit of $0.2 million during the second quarter of fiscal 2018 and expense of $0.2 million during the third quarter of fiscal 2018. These items are included in "payments and other adjustments" in the table below.

The following is a summary of the restructuring costs the Company recorded in fiscal 2017, the payments and other adjustments related to these costs and the remaining liability as of April 28, 2018 (in thousands):

	Restructuring Costs Recorded in Fiscal 2017	Payments and Other Adjustments	Restructuring Cost Liability as of April 28,

			2018
Severance and other employee separation and transition costs	$ 6,606	$ (5,730)	$ 876
Early lease termination and facility closing costs	258	(258)	—
Total	$ 6,864	$ (5,988)	$ 876

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		39-Week Period Ended	
	April 28, 2018	April 29, 2017	April 28, 2018	April 29, 2017
Basic weighted average shares outstanding	50,424	50,601	50,563	50,554
Net effect of dilutive stock awards based upon the treasury stock method	327	200	253	164
Diluted weighted average shares outstanding	50,751	50,801	50,816	50,718

For the third quarters of fiscal 2018 and fiscal 2017, there were 84,551 and 40,023 anti-dilutive share-based awards outstanding, respectively. For the first 39 weeks of fiscal 2018 and 2017, there were 95,690 and 38,762 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 April 28, 2018, 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
June 9, 2019	$ 50.0	0.8725%	One-Month LIBOR	Monthly
June 24, 2019	$ 50.0	0.7265%	One-Month LIBOR	Monthly
April 29, 2021	$ 25.0	1.0650%	One-Month LIBOR	Monthly
April 29, 2021	$ 25.0	0.9260%	One-Month LIBOR	Monthly
August 3, 2022	$ 115.0	1.7950%	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 April 28, 2018 and are reflected at their fair value of $7.4 million 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 third quarter and first 39 weeks of fiscal 2018. The Company also monitors the risk of counterparty default on an ongoing basis and noted that the counterparties are reputable financial institutions.

Financial Instruments

The following table provides the fair value hierarchy for financial assets and liabilities measured on a recurring basis as of April 28, 2018 and July 29, 2017:

	Fair Value at April 28, 2018			Fair Value at July 29, 2017		
(In thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Interest Rate Swap	—	$7,388	—	—	$2,491	—
Liabilities:						
Interest Rate Swap	—	—	—	—	(308)	—

The fair value of the Company's other financial instruments including 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.

	April 28, 2018		July 29, 2017	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities:				
Long-term debt, including current portion	$153,163	$158,886	$161,991	$169,058

7. TREASURY STOCK

On October 6, 2017, the Company announced that its Board of Directors authorized a share repurchase program for up to $200.0 million of the Company’s outstanding common stock. The repurchase program is scheduled to expire upon the Company’s repurchase of shares of the Company’s common stock having an aggregate purchase price of $200.0 million. Repurchases will be made in accordance with applicable securities laws from time to time in the open market, through privately negotiated transactions, or otherwise. The Company may also implement all or part of the repurchase program pursuant to a plan or plans meeting the conditions of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

Under this program, there were no shares of the Company's common stock purchased by the Company in the third quarter of fiscal 2018 and 564,660 shares of the Company's common stock were purchased at an aggregate cost of $22.2 million in the 39-week period ended April 28, 2018. The Company records the repurchase of shares of common stock at cost based on the settlement date of the transaction. These shares are classified as treasury stock, which is a reduction to stockholders’ equity. Treasury stock is included in authorized and issued shares but excluded from outstanding shares.

8. INCOME TAXES

Effects of the Tax Cuts and Jobs Act

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act ("TCJA"), was enacted on December 22, 2017. ASC 740, Accounting for Income Taxes, requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most TCJA provisions is for tax years beginning after

December 31, 2017. Though certain key aspects of the new law were effective January 1, 2018 and have an immediate accounting effect, other significant provisions are not effective or may not result in accounting effects for the Company until its fiscal year beginning July 29, 2018.

Given the significance of the legislation, the SEC staff issued SAB 118, which allows registrants to record provisional amounts concerning TCJA impacts during a one year “measurement period” similar to that used when accounting for business combinations. The measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with the law prior to the enactment of the TCJA.

Provisional estimates were recorded during the second quarter of fiscal 2018 for the estimated impact of the TCJA based on information that was available to the Company. These provisional estimates are comprised of amounts (including the tax basis of assets and liabilities) that will be finalized in connection with the Company's July 2017 tax returns, a rate reduction for fiscal 2018 to a 27% blended federal tax rate, a re-measurement of deferred tax balances to the new statutory 21% rate and the one-time mandatory repatriation transition tax. The Company estimates that the re-measurement of deferred taxes resulted in a provisional $20.9 million net benefit through the end of the third quarter of fiscal 2018 and the repatriation transition tax has an immaterial impact because of foreign tax credits available to the Company. As the Company completes its analysis of the TCJA, changes may be made to provisional estimates, and such changes will be reflected in the period in which the related adjustments are made.

9. 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 the importing, roasting, packaging, and distributing of nuts, dried fruit, seeds, trail mixes, granola, natural and organic snack items and confections, the Company’s branded product lines, and the Company's brokerage business, which markets various products on behalf of food vendors directly and exclusively to the Company's customers. “Other” also includes certain corporate operating expenses that are not allocated to operating divisions, which include, among other expenses, stock based compensation, and salaries, retainers, and other related expenses of certain officers and all directors. Non-operating expenses that are not allocated to the operating divisions are under the caption of “Unallocated (Income)/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.

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

	Wholesale	Other	Eliminations	Unallocated (Income)/Expenses	Consolidated
13-Week Period Ended April 28, 2018:					
Net sales	$2,633,024	$62,158	$ (46,303)	$ —	$2,648,879
Restructuring and asset impairment expenses	—	151	—	—	151
Operating income (loss)	86,633	(3,984)	(492)	—	82,157
Interest expense	—	—	—	4,468	4,468
Interest income	—	—	—	(121)	(121)
Other, net	—	—	—	(24)	