SpartanNash Co
Form 10-Q
August 17, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 15, 2017.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number: 000-31127

SPARTANNASH COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Michigan	38-0593940
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
850 76th Street, S.W. P.O. Box 8700 Grand Rapids, Michigan	49518
(Address of Principal Executive Offices)	(Zip Code)

(616) 878-2000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of August 15, 2017, the registrant had 37,270,606 outstanding shares of common stock, no par value.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q, in the Company's press releases and in the Company's website-accessible conference calls with analysts and investor presentations include "forward-looking statements" about the plans, strategies, objectives, goals or expectations of SpartanNash Company and subsidiaries ("SpartanNash" or "the Company"). These forward-looking statements are identifiable by words or phrases indicating that SpartanNash or management "expects," "anticipates," "plans," "believes," or "estimates," or that a particular occurrence or event "will," "may, "could," "should" or "will likely" result, occur or be pursued or "continue" in the future, that the "outlook" or "trend" is toward particular result or occurrence, that a development is an "opportunity," "priority," "strategy," "focus," that the Company is "positioned" for a particular result, or similarly stated expectations. Accounting estimates, such as those described under the heading "Critical Accounting Policies" in Part I, Item 2 of this Quarterly Report on Form 10-Q, are inherently forward-looking. The Company's asset impairment and restructuring cost provisions are estimates and actual costs may be more or less than these estimates and differences may be material. Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of the Quarterly Report, other report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q, SpartanNash's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and other periodic reports filed with the Securities and Exchange Commission ("SEC"), there are many important factors that could cause actual results to differ materially. These risks and uncertainties include general business conditions, changes in overall economic conditions that impact consumer spending, the Company's ability to integrate acquired assets, the impact of competition and other factors which are often beyond the control of the Company, and other risks listed in the "Risk Factors" discussion in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and risks and uncertainties not presently known to the Company or that the Company currently deems immaterial.

This section and the discussions contained in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in Part I, Item 2 "Critical Accounting Policy" of the Quarterly Report on Form 10-Q, are intended to provide meaningful cautionary statements for purposes of the safe harbor provision of the Private Securities Litigation Reform Act of 1995. This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect the Company's expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to SpartanNash or that SpartanNash currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. The Company undertakes no obligation to update or revise its forward-looking statements to reflect developments that occur or information obtained after the date of this Quarterly Report.

PART I

FINANCIAL INFORMATION

ITEM 1. Financial Statements

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	July 15, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 22,726	$ 24,351
Accounts and notes receivable, net	349,279	291,568
Inventories, net	555,578	539,857
Prepaid expenses and other current assets	32,712	37,187
Property and equipment held for sale	173	521
Total current assets	960,468	893,484
Property and equipment, net	621,618	559,722
Goodwill	366,636	322,686
Intangible assets, net	130,048	60,202
Other assets, net	119,765	94,242
Total assets	$ 2,198,535	$ 1,930,336
Liabilities and Shareholders’ Equity		
Current liabilities		
Accounts payable	$ 394,276	$ 372,432
Accrued payroll and benefits	60,363	75,333
Other accrued expenses	41,166	40,788
Current maturities of long-term debt and capital lease obligations	19,001	17,424
Total current liabilities	514,806	505,977
Long-term liabilities		
Deferred income taxes	137,219	123,243
Postretirement benefits	16,689	16,266
Other long-term liabilities	39,496	45,768
Long-term debt and capital lease obligations	641,257	413,675
Total long-term liabilities	834,661	598,952

Commitments and contingencies (Note 8)		
Shareholders’ equity		
Common stock, voting, no par value; 100,000 shares authorized; 37,536 and 37,539 shares outstanding	522,046	521,984
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
Accumulated other comprehensive loss	(11,392)	(11,437)
Retained earnings	338,414	314,860
Total shareholders’ equity	849,068	825,407
Total liabilities and shareholders’ equity	$ 2,198,535	$ 1,930,336

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 15, 2017	July 16, 2016	July 15, 2017	July 16, 2016
Net sales	$ 1,894,709	$ 1,827,562	$ 4,297,213	$ 4,106,332
Cost of sales	1,623,683	1,564,863	3,668,811	3,509,391
Gross profit	271,026	262,699	628,402	596,941
Operating expenses				
Selling, general and administrative	231,476	223,418	554,170	519,799
Merger/acquisition and integration	622	913	4,638	1,810
Restructuring (gains) charges and asset impairment	(14)	5,748	1,008	21,052
Total operating expenses	232,084	230,079	559,816	542,661
Operating earnings	38,942	32,620	68,586	54,280
Other (income) and expenses				
Interest expense	5,682	4,437	12,997	10,260
Other, net	(67)	(120)	(172)	(270)
Total other expenses, net	5,615	4,317	12,825	9,990
Earnings before income taxes and discontinued operations	33,327	28,303	55,761	44,290
Income taxes	12,267	10,743	19,636	16,770
Earnings from continuing operations	21,060	17,560	36,125	27,520
Loss from discontinued operations, net of taxes	(31)	(76)	(71)	(185)
Net earnings	$ 21,029	$ 17,484	$ 36,054	$ 27,335
Basic earnings per share:				
Earnings from continuing operations	$ 0.56	$ 0.47	$ 0.96	$ 0.73
Loss from discontinued operations	—	— *	—	—
Net earnings	$ 0.56	$ 0.47	$ 0.96	$ 0.73
Diluted earnings per share:				
Earnings from continuing operations	$ 0.56	$ 0.47	$ 0.96	$ 0.73
Loss from discontinued operations	—	—	(0.01)*	—
Net earnings	$ 0.56	$ 0.47	$ 0.95	$ 0.73

See accompanying notes to condensed consolidated financial statements.

* Includes rounding

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SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 15, 2017	July 16, 2016	July 15, 2017	July 16, 2016
Net earnings	$ 21,029	$ 17,484	$ 36,054	$ 27,335
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	31	1	72	3
Total other comprehensive income, before tax	31	1	72	3
Income tax expense related to items of other comprehensive income	(11)	—	(27)	(1)
Total other comprehensive income, after tax	20	1	45	2
Comprehensive income	$ 21,049	$ 17,485	$ 36,099	$ 27,337

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2016	37,539	$ 521,984	$ (11,437)	$ 314,860	$ 825,407
Net earnings	—	—	—	36,054	36,054
Other comprehensive income	—	—	45	—	45
Dividends - $0.33 per share	—	—	—	(12,500)	(12,500)
Share repurchase	(300)	(7,873)	—	—	(7,873)
Stock-based employee compensation	—	7,491	—	—	7,491
Issuances of common stock on stock option exercises and stock bonus plan	168	3,606	—	—	3,606
Issuances of restricted stock	292	—	—	—	—
Cancellations of stock-based awards	(163)	(3,162)	—	—	(3,162)
Balance at July 15, 2017	37,536	$ 522,046	$ (11,392)	$ 338,414	$ 849,068

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	28 Weeks Ended	
	July 15, 2017	July 16, 2016
Cash flows from operating activities		
Net earnings	$ 36,054	$ 27,335
Loss from discontinued operations, net of tax	71	185
Earnings from continuing operations	36,125	27,520
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash restructuring, asset impairment and other charges	588	19,271
Depreciation and amortization	46,362	42,040
LIFO expense	2,282	2,471
Postretirement benefits expense	399	50
Deferred taxes on income	14,565	4,752
Stock-based compensation expense	7,491	6,067
Other, net	(75)	(79)
Changes in operating assets and liabilities:		
Accounts receivable	(25,904)	9,680
Inventories	(12,764)	(18,360)
Prepaid expenses and other assets	(4,806)	(9,512)
Accounts payable	(2,369)	(7,418)
Accrued payroll and benefits	(18,961)	(11,816)
Postretirement benefit payments	(178)	(150)
Other accrued expenses and other liabilities	(4,398)	(7,334)
Net cash provided by operating activities	38,357	57,182
Cash flows from investing activities		
Purchases of property and equipment	(37,789)	(41,336)
Net proceeds from the sale of assets	3,701	5,422
Acquisitions, net of cash acquired	(214,595)	—
Loans to customers	(330)	—
Payments from customers on loans	1,437	1,056
Other	(225)	(670)
Net cash used in investing activities	(247,801)	(35,528)
Cash flows from financing activities		
Proceeds from revolving credit facility	916,467	690,601
Payments on revolving credit facility	(683,807)	(684,183)
Share repurchase	(7,873)	(9,000)
Net payments related to stock-based award activities	(3,163)	(2,229)
Repayment of other long-term debt	(4,283)	(5,145)
Financing fees paid	(252)	(99)
Proceeds from exercise of stock options	3,207	1,032
Dividends paid	(12,500)	(11,253)

Net cash provided by (used in) financing activities	207,796	(20,276)
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	23	(281)
Net cash provided by (used in) discontinued operations	23	(281)
Net (decrease) increase in cash and cash equivalents	(1,625)	1,097
Cash and cash equivalents at beginning of period	24,351	22,719
Cash and cash equivalents at end of period	$ 22,726	$ 23,816

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of SpartanNash Company and its subsidiaries ("SpartanNash" or "the Company"). Intercompany accounts and transactions have been eliminated. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In the opinion of management, the accompanying condensed consolidated financial statements, taken as a whole, contain all adjustments, including normal recurring items, necessary to present fairly the financial position of SpartanNash as of July 15, 2017, and the results of its operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The unaudited information in the condensed consolidated financial statements for the second quarters and year to date periods of 2017 and 2016 include the results of operations of the Company for the 12 and 28-week periods ended July 15, 2017 and July 16, 2016, respectively.

Note 2 – Recently Issued Accounting Standards

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. If a reporting unit fails Step 1 of the goodwill impairment test, entities are no longer required to compute the implied fair value of goodwill following the same procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new guidance is effective for the Company in fiscal year ending January 2, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations – Clarifying the Definition of a Business." ASU 2017-01 narrows the definition of a business and provides a screen to determine when a set of the three elements of a business—inputs, processes, and outputs – are not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The new guidance is effective for the Company in fiscal year ending December 29, 2018. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 provides for simplification of several aspects of the accounting for share-based payment transactions including income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, and classification on the statement of cash flows. The Company adopted the new standard in the first quarter of fiscal 2017. Accordingly the tax benefits or deficiencies related to stock-based compensation are reflected in the condensed consolidated statements of earnings as a component of the provision for income taxes, whereas they previously were recognized in equity. As a result of the adoption, the Company recognized $1.3 million of tax benefits related to share-based payments in its provision for income taxes in 2017. Additionally, the Company’s condensed consolidated statements of cash flows now include tax benefits as an operating activity, while cash paid on associates’ behalf related to shares withheld for tax purposes is classified as a financing activity. Retrospective application of the cash flow presentation resulted in $2.5 million increases to both net cash provided by operating activities and net cash used in financing activities, respectively, for the year-to-date period ended July 16, 2016. The Company’s stock compensation expense continues to reflect estimated forfeitures.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 provides guidance for lease accounting and stipulates that lessees will need to recognize a right-of-use asset and a lease liability for substantially all leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. Treatment in the consolidated statements of earnings will be similar to the current treatment of operating and capital leases. The new guidance is effective on a modified retrospective basis for the Company in the first quarter of its fiscal year ending December 28, 2019. The adoption of this ASU will result in a significant increase to the Company's consolidated balance sheets for lease liabilities and right-of-use assets, and the Company is currently evaluating the other effects of adoption of this ASU on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The new guidance affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "Deferral of the Effective Date," which results in the guidance being effective for the Company in the first quarter of its fiscal year ending December 29, 2018. The adoption will include updates as provided under ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net);" ASU 2016-10, "Identifying Performance Obligations and Licensing;" and ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients." Adoption is allowed by either the full retrospective or modified retrospective approach.

The Company is currently in the process of evaluating the impact of adoption of this standard on its consolidated financial statements and has substantially completed its initial evaluation of the major focus areas that could impact the Company. From a principal versus agent considerations perspective, the Company has evaluated its significant arrangements and has determined that revenue recognition on a gross reporting basis will remain relatively unchanged, with the exception of a few smaller contracts that could be reported on a net basis depending on the nature of the arrangements and management's final assessment. As it pertains to the Food Distribution and Military segments, the Company determined that the promised goods or services other than grocery products outlined in the contracts with customers are immaterial in the context of the contracts. As a result of this determination, the Company is not required to assess whether these promised goods or services are performance obligations, and therefore, believes revenue recognition practices will remain relatively unchanged as there are no additional deliverables for which the transaction price will need to be allocated. Many of these contracts also include contingent amounts of variable consideration, and the Company expects there to be few, if any, changes to the timing of revenue as the Company currently recognizes these amounts under the presumption that they are determinable and can be estimated. The Company also expects there to be few, if any, changes to revenue recognition in its Retail segment based on how the Company currently records gift card breakage and loyalty rewards, which are immaterial with respect to the consolidated financial statements.

Note 3 – Acquisitions

On January 6, 2017, the Company acquired certain assets and assumed certain liabilities of Caito Foods Service ("Caito") and Blue Ribbon Transport ("BRT") for $214.6 million in cash, net of $2.5 million of cash acquired. Acquired assets consist primarily of property and equipment of $77.5 million, intangible assets of $72.9 million, and working capital. Intangible assets are primarily composed of customer relationships, which will be amortized over fifteen years, and indefinite lived trade names. In connection with the purchase, the Company is providing certain earn-out opportunities that have the potential to pay the sellers an additional $27.4 million, collectively, if the business achieves certain performance targets during the first three years after acquisition. If certain performance targets are not met in the first year after acquisition, the Company will be reimbursed a portion of the initial purchase price at an amount not to exceed the sum of: a) $15.0 million, representing the funds paid into escrow, and b) any earn-out

opportunities earned by the sellers. The reduction in purchase price, if applicable, will first be applied to funds paid into escrow and then as an offset against and a reduction to any payments owed on the various earn-out opportunities. The acquisition was funded with proceeds from the Company's Credit Agreement. As of July 15, 2017, the Company has incurred $4.9 million of costs related to the acquisition, of which $2.7 million was incurred in 2017, and is recorded in merger/acquisition and integration expense.

Founded in Indianapolis in 1965, Caito is a leading supplier of fresh fruits and vegetables as well as value-added meal solutions to grocery retailers and food service distributors across 22 states in the Southeast, Midwest and Eastern United States. BRT offers temperature-controlled distribution and logistics services throughout North America. Caito and BRT service customers from facilities in Indiana and Florida. Caito also has a fresh cut fruit and vegetable facility in Indianapolis and recently completed a new 118,000 square foot Fresh Kitchen facility, also in Indianapolis. The Fresh Kitchen provides the Company with the ability to process, cook, and package fresh protein-based foods and complete meal solutions. As of the second quarter of fiscal 2017, the Company has begun limited production in the Fresh Kitchen facility. The Company acquired Caito and BRT to strengthen its fresh product offerings to its existing customer base and to expand into fast-growing, value-added services, such as freshly-prepared centerplate and side dish categories.

The acquired assets and assumed liabilities were recorded at their estimated fair values as of the acquisition date and were based on preliminary estimates. These estimates are subject to revision upon the finalization of the valuations of the acquired real estate and intangible assets. Adjustments, if any, will be made prior to January 5, 2018. The excess of the purchase price over the fair value of net assets acquired, currently estimated at $45.2 million, was recorded as goodwill in the consolidated balance sheet and allocated to the Food Distribution segment. The goodwill recognized is attributable primarily to the assembled workforce of Caito and BRT and expected synergies. The Company expects that all goodwill attributable to the acquisition will be deductible for tax purposes.

Note 4 – Goodwill

Changes in the carrying amount of goodwill were as follows:

(In thousands)	Food Distribution	Retail	Total
Balance at December 31, 2016	$ 132,367	$ 190,319 (a)	$ 322,686 (a)
Acquisitions (Note 3)	45,181	—	45,181
Disposals	—	(1,231)	(1,231)
Balance at July 15, 2017	$ 177,548	$ 189,088 (a)	$ 366,636 (a)

(a) Net of accumulated impairment charges of $86.6 million.

The Company reviews goodwill and other intangible assets for impairment annually, during the fourth quarter of each fiscal year, and more frequently if circumstances indicate the possibility of impairment. As of the date of the most recent goodwill impairment test, which utilized data and assumptions as of October 8, 2016, the Food Distribution reporting unit had a fair value that was substantially in excess of its carrying value and the fair value of the Retail reporting unit, which had $190.5 million of recorded goodwill as of the assessment date, exceeded its carrying value by 13.1%. The fair value calculations contain significant judgments and estimates related to the Retail reporting unit's projected weighted average cost of capital, future revenues and cash flows, and overall profitability. These judgments and estimates are impacted by a number of different factors, both internal and external, that could result in changes in the estimates and their related outcomes. Specifically, certain changes in economic, industry or market conditions, business operations, competition, or the Company's performance could affect the estimates used in the fair value calculations.

The Company continues to assess whether indicators are present or if there are changes in circumstances that would suggest impairment may exist, including an evaluation of business climate changes and the significant estimates related to the Retail reporting unit's future revenues, cash flows and profitability. Since the most recent goodwill impairment test, the Company continues to monitor the trends of the Retail reporting unit's performance. At this time the Company is not aware of any events or significant changes in its estimates that would indicate that impairment exists, and the Company has sufficient available information, both current and historical, to support its assumptions, judgments and estimates. From a sensitivity perspective, no goodwill impairment charge would be required for the Retail reporting unit if the estimate of future discounted cash flows was 2.5% lower or if the discount rate increased by 35 basis points. If the Company's stock price experiences a significant and sustained decline or other events or changes in circumstances occur, such as interest rate increases, changes in macroeconomic conditions, or operating results of the Retail reporting unit not meeting the Company's estimates, it could result in the Company recording a significant non-cash impairment charge.

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Note 5 – Restructuring Charges and Asset Impairment

The following table provides the activity of reserves for closed properties for the first quarter of 2017. Reserves for closed properties recorded in the condensed consolidated balance sheets are included in “Other accrued expenses” in Current liabilities and “Other long-term liabilities” in Long-term liabilities based on when the obligations are expected to be paid.

(In thousands)	Lease and Ancillary Costs	Severance	Total
Balance at December 31, 2016	$ 21,932	$ —	$ 21,932
Provision for closing charges (a)	405	—	405
Provision for severance (b)	—	545	545
Lease termination adjustment (c)	(1,910)	—	(1,910)
Accretion expense	302	—	302
Payments	(3,681)	(379)	(4,060)
Balance at July 15, 2017	$ 17,048	$ 166	$ 17,214

(a) The provision for closing charges represents initial costs estimated to be incurred for lease and related ancillary costs, net of sublease income, related to store closings in the Retail segment.

(b) The provision for severance relates to store closings in the Retail segment and a distribution center closing in the Food Distribution segment.

(c) The lease termination adjustment represents the benefit recognized in connection with a lease buyout on a previously closed store. The lease liability was formerly included in the Company’s restructuring cost liability based on initial estimates.

Included in the liability are lease obligations recorded at the present value of future minimum lease payments, calculated using a risk-free interest rate, and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated sublease income.

Restructuring and asset impairment charges included in the condensed consolidated statements of earnings consisted of the following:

(In thousands)	12 Weeks Ended July 15, 2017	12 Weeks Ended July 16, 2016	28 Weeks Ended July 15, 2017	28 Weeks Ended July 16, 2016
Asset impairment charges (a)	$ —	$ 3,483	$ 521	$ 3,483
Provision for closing charges (b)	—	718	405	13,171
Loss (gain) on sales of assets related to closed facilities (c)	850	(101)	673	266
Provision for severance (d)	10	—	545	895
Other costs associated with distribution center and store closings (e)	477	1,334	774	3,103
Changes in estimates (f)	—	314	—	434
Lease termination adjustment (g)	(1,351)	—	(1,910)	(300)
	$ (14)	$ 5,748	$ 1,008	$ 21,052

(a) Asset impairment charges were incurred in the Retail segment in conjunction with the Company’s retail store rationalization plan.

(b) The provision for closing charges represents initial costs estimated to be incurred for lease and related ancillary costs, net of sublease income, related to store closings in the Retail segment.

(c) The net (gain) loss on sales of assets resulted from the sales of previously closed retail stores and a food distribution center.

(d) The provision for severance relates to distribution center closings in the Food Distribution segment and store closings in the Retail segment.

(e) Other closing costs associated with distribution center and store closings represent additional costs, predominantly labor and inventory transfer costs, incurred in connection with winding down certain operations in the Food Distribution and Retail segments.

(f) The changes in estimates relate to revised estimates of lease and ancillary costs associated with previously closed distribution centers in the Food Distribution segment.

(g) The lease termination adjustments represent the benefits recognized in connection with lease buyouts on previously closed stores in the Retail segment.

Note 6 – Long-Term Debt

Long-term debt consists of the following:

(In thousands)	July 15, 2017	December 31, 2016
Senior secured revolving credit facility, due December 2021	$ 564,069	$ 359,127
Senior secured term loan, due December 2021	54,672	26,954
Capital lease obligations	45,101	48,255
Other, 2.61% - 8.75%, due 2019 - 2020	3,957	5,028
Total debt - Principal	667,799	439,364
Unamortized debt issuance costs	(7,541)	(8,265)
Total debt	660,258	431,099
Less current portion	19,001	17,424
Total long-term debt	$ 641,257	$ 413,675

Note 7 – Fair Value Measurements

Financial instruments include cash and cash equivalents, accounts and notes receivable, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value because of the short-term maturities of these financial instruments. At July 15, 2017 and December 31, 2016, the book value and estimated fair value of the Company's debt instruments, excluding debt financing costs, were as follows:

(In thousands)	July 15, 2017	December 31, 2016
Book value of debt instruments, excluding debt financing costs:		
Current maturities of long-term debt and capital lease obligations	$ 19,001	$ 17,424
Long-term debt and capital lease obligations	648,798	421,940
Total book value of debt instruments	667,799	439,364
Fair value of debt instruments, excluding debt financing costs	669,130	440,759
Excess of fair value over book value	$ 1,331	$ 1,395

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities (Level 2 inputs and valuation techniques).

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability, reflecting the reporting entity's own assumptions about the assumptions that market participants would use in pricing.

Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. Assets with a book value of $0.9 million were measured at a fair value of $0.4 million, resulting in an impairment charge of $0.5 million in 2017. Fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows, discounted using a risk-adjusted rate of interest. The Company estimates future cash flows based on historical results of operations, external factors expected to impact future performance, experience and knowledge of the geographic area in which the assets are located, and when necessary, uses real estate brokers. See Note 5 for discussion of long-lived asset impairment charges.

Certain of the Company's business combinations involve the potential for the receipt or payment of future contingent consideration upon the shortfall or achievement of various operating thresholds, respectively. The additional consideration is generally contingent on the acquired company reaching certain performance milestones, including attaining specified EBITDA levels. For business combinations including contingent consideration provisions an asset or liability is recorded for the estimated fair value of the contingent consideration on the acquisition date. The fair value of the contingent consideration is remeasured at each reporting period with the change in fair value recognized as income or expense within operating expenses in the condensed consolidated statements of income. The Company measures the asset and liability on a recurring basis using Level 3 inputs.

The fair value of contingent consideration is measured using projected payment dates, discount rates, probabilities of payment, and projected EBITDA. Projected contingent payment or receipt amounts are discounted back to the current period using a discounted cash flow model. Projected EBITDA amounts are based on initial deal model forecasts at the time of acquisition as well as the Company's most recent internal operational budget, and include a probability weighted range of outcomes. Changes in projected EBITDA, probabilities of payment, discount rates, or projected payment dates may result in higher or lower fair value measurements. The recurring Level 3 fair value measurements of contingent consideration include the following significant unobservable inputs as of July 15, 2017:

Unobservable Input	Range
Discount rate	11.80%
Probability of payments	0% - 100%
Projected fiscal year(s) of payments	2017 - 2019

The fair value of contingent consideration receivable and payable associated with the Caito and BRT acquisition was $18.4 million and $3.4 million, respectively, as of July 15, 2017. The net receivable of $15 million was recorded in other assets, net in the condensed consolidated balance sheets as there is a right of offset for the payable and receivable. Upon payment, the portion of the contingent consideration related to the acquisition date fair value is reported as a financing activity in the condensed consolidated statements of cash flows. Amounts received or paid in excess of the acquisition date fair value are reported as an operating activity in the consolidated statements of cash flows.

Note 8 – Commitments and Contingencies

The Company is engaged from time-to-time in routine legal proceedings incidental to its business. The Company does not believe that these routine legal proceedings, taken as a whole, will have a material impact on its business or financial condition. While the ultimate effect of such actions cannot be predicted with certainty, management believes that their outcome will not result in an adverse effect on the Company's consolidated financial position, operating results or liquidity.

From time to time, the Company may advance funds to independent retailers which are earned by the retailers primarily through achieving specified purchase volume requirements, as outlined in their supply agreements with the Company, or in limited instances, for remaining a SpartanNash customer for a specified time period. These advances must be repaid if the purchase volume requirements are not met or if the retailer no longer remains a customer for the specified time period. As of July 15, 2017, the Company has an unearned advance to one independent retailer for an amount representing approximately two percent of the Company's total assets, and also has outstanding receivables from this customer in the amount of $8.1 million, of which $4.8 million has been reserved for given the past due status on those receivables. The Company's collateral related to the advanced funds is a security interest in select business assets of the independent retailer's stores, including select real property assets and other collateral, including personal guarantees, from the shareholders. However, in the event of default, the Company may be unable to recover the unearned portion of the funds advanced to this independent retailer. Based on the uncertainty associated with estimating the value of the collateral and the risks related to taking possession of and divesting the secured business assets, the Company cannot reasonably estimate the amount of advanced funds, if any, that should be reserved. The Company estimates that the possible range of loss related to this customer is between zero and $25.0 million, depending on the circumstances discussed above.

The Company contributes to the Central States Southeast and Southwest Pension Fund ("Central States Plan" or "the Plan"), a multi-employer pension plan, based on obligations arising from its collective bargaining agreements in Bellefontaine, Ohio, Lima, Ohio, and Grand Rapids, Michigan covering its supply chain associates at those locations. This Plan provides retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed by contributing employers and unions; however, SpartanNash is not a trustee. The trustees typically are responsible for determining the level of benefits to be provided to participants, as well as for such matters as the investment of the assets and the administration of the plan. The Company currently contributes to the Central States Plan under the terms outlined in the "Primary Schedule" of Central States' Rehabilitation Plan or those outlined in the "Default Schedule." Both the Primary and Default schedules require varying increases in employer contributions over the previous year's contribution. Increases are set within the collective bargaining agreement and vary by location. The Plan continues to be in red zone status, which according to the Pension Protection Act, is considered to be in critical status as red zone status plans are generally less than 65% funded.

Based on the most recent information available to the Company, management believes that the present value of actuarial accrued liabilities in this multi-employer plan significantly exceeds the value of the assets held in trust to pay benefits. Because SpartanNash is one of a number of employers contributing to this plan, it is difficult to ascertain what the exact amount of the underfunding would be. Management is not aware of any significant change in funding levels since December 31, 2016. To reduce this underfunding, management expects meaningful increases in expense as a result of required incremental multi-employer pension plan contributions in future years. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined.

Note 9 – Associate Retirement Plans

During the 12 and 28-week periods ended July 15, 2017, the Company recognized net periodic pension income of $0.2 million and $0.3 million, respectively, related to the SpartanNash Company Pension Plan and net postretirement benefit costs of $0.1 million and $0.2 million, respectively, related to the SpartanNash Medical Plan.

The Company did not make any contributions to the SpartanNash Company Pension Plan during the 28 weeks ended July 15, 2017. The Company does not expect, and is not required, to make any contributions for the remainder of the fiscal year ending December 30, 2017.

The Company's retirement programs also include defined contribution plans providing contributory benefits, as well as executive compensation plans for a select group of management personnel and/or highly compensated associates.

Multi-Employer Plans

In addition to the plans listed above, the Company participates in the Central States Southeast and Southwest Pension Fund (EIN 7456500), the Michigan Conference of Teamsters and Ohio Conference of Teamsters Health and Welfare plans (collectively referred to as "multi-employer plans"), and other company-sponsored defined contribution plans for most associates covered by collective bargaining agreements.

With respect to the Company's participation in the Central States Plan, expense is recognized as contributions are funded. The Company's contributions for the 28 weeks ended July 15, 2017 and July 16, 2016 were $7.8 million and $7.5 million, respectively. See Note 8 for further information regarding the Company's participation in the Central States Plan.

Note 10 – Income Taxes

The effective income tax rate was 36.8% and 38.0% for the 12 weeks ended July 15, 2017 and July 16, 2016, respectively. For the 28 weeks ended July 15, 2017 and July 16, 2016, the effective income tax rate was 35.2% and

37.9%, respectively. The differences from the federal statutory rate are primarily due to tax benefits related to state taxes, stock-based compensation and federal tax credits in the current year and state taxes and federal tax credits in the prior year. The Company adopted ASU 2016-09 on January 1, 2017, which requires tax benefits or deficiencies related to stock-based compensation to be reflected in the condensed consolidated statements of earnings as a component of the provision for income taxes whereas they were previously recognized in equity. Total tax benefits related to stock-based compensation recognized in fiscal 2017 were $1.3 million.

Note 11 – Stock-Based Compensation

The Company has a shareholder-approved stock incentive plan that provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, and other stock-based and stock-related awards to directors, officers and other key associates.

Stock-based compensation expense recognized and included in “Selling, general and administrative expenses” in the condensed consolidated statements of earnings, and related tax benefits were as follows:

(In thousands)	12 Weeks Ended July 15, 2017	12 Weeks Ended July 16, 2016	28 Weeks Ended July 15, 2017	28 Weeks Ended July 16, 2016
Restricted stock	$ 1,139	$ 1,043	$ 7,491	$ 6,067
Tax benefits	(427)	(395)	(2,810)	(2,300)
Stock-based compensation expense, net of tax	$ 712	$ 648	$ 4,681	$ 3,767

The following table summarizes activity in the stock-based compensation plans for the 28 weeks ended July 15, 2017:

	Shares Under Options	Weighted Average Exercise Price	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2016	200,517	$ 19.94	660,143	$ 26.48
Granted	—	—	292,205	34.82
Exercised/Vested	(152,589)	21.02	(253,280)	25.85
Cancelled/Forfeited	—	—	(75,951)	29.03
Outstanding at July 15, 2017	47,928	$ 16.52	623,117	$ 30.34

The Company has not issued any stock options since 2009 and all outstanding options are vested and exercisable at July 15, 2017.

As of July 15, 2017, total unrecognized compensation costs related to non-vested stock-based awards granted under the Company's stock incentive plans were $6.3 million for restricted stock, and are expected to be recognized over a weighted average period of 2.3 years. All compensation costs related to stock options have been recognized.

Note 12 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share from continuing operations:

(In thousands, except per share amounts)	12 Weeks Ended July 15, 2017	12 Weeks Ended July 16, 2016	28 Weeks Ended July 15, 2017	28 Weeks Ended July 16, 2016
Numerator:				
Earnings from continuing operations	$ 21,060	$ 17,560	$ 36,125	$ 27,520
Adjustment for earnings attributable to participating securities	(357)	(314)	(640)	(492)
Earnings from continuing operations used in calculating earnings per share	$ 20,703	$ 17,246	$ 35,485	$ 27,028
Denominator:				
Weighted average shares outstanding, including participating securities	37,809	37,475	37,742	37,483
Adjustment for participating securities	(641)	(670)	(669)	(670)
Shares used in calculating basic earnings per share	37,168	36,805	37,073	36,813
Effect of dilutive stock options	22	71	45	59
Shares used in calculating diluted earnings per share	37,190	36,876	37,118	36,872
Basic earnings per share from continuing operations	$ 0.56	$ 0.47	$ 0.96	$ 0.73
Diluted earnings per share from continuing operations	$ 0.56	$ 0.47	$ 0.96	$ 0.73

Note 13 – Supplemental Cash Flow Information

Supplemental cash flow information is as follows:

(In thousands)	28 Weeks Ended July 15, 2017	28 Weeks Ended July 16, 2016
Non-cash financing activities:		
Capital lease obligations	$ 60	$ 3,524
Non-cash investing activities:		
Capital expenditures included in accounts payable	609	2,133
Capital lease asset additions	60	3,524
Other supplemental cash flow information:		
Cash paid for interest	12,224	8,648

Note 14 – Reporting Segment Information

The following tables set forth information about the Company by reporting segment:

(In thousands)	Food Distribution	Military	Retail	Total
12 Weeks Ended July 15, 2017				
Net sales to external customers	$ 941,636	$ 471,077	$ 481,996	$ 1,894,709
Inter-segment sales	209,435	—	—	209,435
Merger/acquisition and integration	468	—	154	622
Depreciation and amortization	6,073	2,607	9,584	18,264
Operating earnings	23,204	2,509	13,229	38,942
Capital expenditures	8,275	1,603	8,435	18,313
12 Weeks Ended July 16, 2016				
Net sales to external customers	$ 820,328	$ 505,418	$ 501,816	$ 1,827,562
Inter-segment sales	220,146	—	—	220,146
Merger/acquisition and integration	93	—	820	913
Depreciation and amortization	4,827	2,682	10,126	17,635
Operating earnings	19,227	2,497	10,896	32,620
Capital expenditures	4,673	712	17,861	23,246
28 Weeks Ended July 15, 2017				
Net sales to external customers	$ 2,104,586	$ 1,114,390	$ 1,078,237	$ 4,297,213
Inter-segment sales	476,763	—	—	476,763
Merger/acquisition and integration	4,315	—	323	4,638
Depreciation and amortization	15,016	6,046	22,624	43,686
Operating earnings	48,518	3,399	16,669	68,586
Capital expenditures	14,029	4,054	19,706	37,789

28 Weeks Ended July 16, 2016				
Net sales to external customers	$ 1,811,465	$ 1,179,941	$ 1,114,926	$ 4,106,332
Inter-segment sales	497,149	—	—	497,149
Merger/acquisition and integration	561	1	1,248	1,810
Depreciation and amortization	11,297	6,157	23,550	41,004
Operating earnings	45,083	5,930	3,267	54,280
Capital expenditures	10,195	3,047	28,094	41,336

(In thousands)	July 15, 2017	December 31, 2016
Total Assets		
Food Distribution	$ 1,071,156	$