SpartanNash Co
Form 10-Q
November 08, 2018

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 October 6, 2018.

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 every Interactive Data File required to be submitted 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 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 November 6, 2018, the registrant had 35,939,837 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 30, 2017 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 30, 2017 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 30, 2017 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 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)

	October 6, 2018	December 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 20,673	$ 15,667
Accounts and notes receivable, net	363,951	344,057
Inventories, net	592,152	597,162
Prepaid expenses and other current assets	43,333	47,400
Property and equipment held for sale	8,654	—
Total current assets	1,028,763	1,004,286
Property and equipment, net	577,285	600,240
Goodwill	178,648	178,648
Intangible assets, net	130,227	134,430
Other assets, net	139,118	138,193
Total assets	$ 2,054,041	$ 2,055,797
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 411,399	$ 376,977
Accrued payroll and benefits	60,086	65,156
Other accrued expenses	38,498	43,252
Current maturities of long-term debt and capital lease obligations	8,135	9,196
Total current liabilities	518,118	494,581
Long-term liabilities		
Deferred income taxes	51,634	42,050
Postretirement benefits	16,337	15,687
Other long-term liabilities	36,693	40,774
Long-term debt and capital lease obligations	694,889	740,755
Total long-term liabilities	799,553	839,266

Commitments and contingencies (Note 7)		
Shareholders’ equity		
Common stock, voting, no par value; 100,000 shares authorized; 35,938 and 36,466 shares outstanding	483,175	497,093
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
Accumulated other comprehensive loss	(14,926)	(15,136)
Retained earnings	268,121	239,993
Total shareholders’ equity	736,370	721,950
Total liabilities and shareholders’ equity	$ 2,054,041	$ 2,055,797

See accompanying notes to condensed consolidated financial statements.

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SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	12 Weeks Ended		40 Weeks Ended	
	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Net sales	$ 1,886,730	$ 1,868,398	$ 6,167,756	$ 6,078,299
Cost of sales	1,630,588	1,606,706	5,302,740	5,188,205
Gross profit	256,142	261,692	865,016	890,094
Operating expenses				
Selling, general and administrative	228,583	228,545	773,844	782,856
Merger/acquisition and integration	521	2,392	3,531	7,031
Goodwill impairment	—	189,027	—	189,027
Restructuring charges and asset impairment	232	35,626	5,269	36,633
Total operating expenses	229,336	455,590	782,644	1,015,547
Operating earnings (loss)	26,806	(193,898)	82,372	(125,453)
Other expenses and (income)				
Interest expense	7,082	6,130	22,828	19,128
Other, net	(195)	(131)	(655)	(445)
Total other expenses, net	6,887	5,999	22,173	18,683
Earnings (loss) before income taxes and discontinued operations	19,919	(199,897)	60,199	(144,136)
Income tax expense (benefit)	2,374	(76,445)	12,381	(56,809)
Earnings (loss) from continuing operations	17,545	(123,452)	47,818	(87,327)
Loss from discontinued operations, net of taxes	(80)	(54)	(238)	(125)
Net earnings (loss)	$ 17,465	$ (123,506)	$ 47,580	$ (87,452)
Basic earnings (loss) per share:				
Earnings (loss) from continuing operations	$ 0.49	$ (3.31)	$ 1.33	$ (2.32)
Loss from discontinued operations	—	(0.01)*	(0.01)	(0.01)*
Net earnings (loss)	$ 0.49	$ (3.32)	$ 1.32	$ (2.33)
Diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	$ 0.49	$ (3.31)	$ 1.33	$ (2.32)
Loss from discontinued operations	—	(0.01)*	(0.01)	(0.01)*
Net earnings (loss)	$ 0.49	$ (3.32)	$ 1.32	$ (2.33)

* Includes rounding

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	12 Weeks Ended		40 Weeks Ended	
	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Net earnings (loss)	$ 17,465	$ (123,506)	$ 47,580	$ (87,452)
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	83	31	278	103
Income tax expense related to items of other comprehensive income	(20)	(12)	(68)	(39)
Total other comprehensive income, after tax	63	19	210	64
Comprehensive income (loss)	$ 17,528	$ (123,487)	$ 47,790	$ (87,388)

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 30, 2017	36,466	$ 497,093	$ (15,136)	$ 239,993	$ 721,950
Net earnings	—	—	—	47,580	47,580
Other comprehensive income	—	—	210	—	210
Dividends - $0.54 per share	—	—	—	(19,452)	(19,452)
Share repurchases	(952)	(20,000)	—	—	(20,000)
Stock-based employee compensation	—	7,040	—	—	7,040
Issuances of common stock for stock bonus plan and associate stock purchase plan	34	672	—	—	672
Issuances of restricted stock	482	—	—	—	—
Cancellations of stock-based awards	(92)	(1,630)	—	—	(1,630)
Balance at October 6, 2018	35,938	$ 483,175	$ (14,926)	$ 268,121	$ 736,370

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	40 Weeks Ended	
	October 6, 2018	October 7, 2017
Cash flows from operating activities		
Net earnings (loss)	$ 47,580	$ (87,452)
Loss from discontinued operations, net of tax	238	125
Earnings (loss) from continuing operations	47,818	(87,327)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Non-cash goodwill/asset impairment, restructuring, and other charges	5,496	225,101
Depreciation and amortization	64,457	66,366
LIFO expense	2,349	2,474
Postretirement benefits expense	852	1,276
Deferred taxes on income	9,584	(62,257)
Stock-based compensation expense	7,040	8,593
Postretirement benefit plan contributions	(1,771)	(280)
Other, net	(108)	(86)
Changes in operating assets and liabilities:		
Accounts receivable	(17,852)	(44,737)
Inventories	2,098	(49,442)
Prepaid expenses and other assets	155	(3,546)
Accounts payable	35,490	42,842
Accrued payroll and benefits	(5,917)	(19,881)
Other accrued expenses and other liabilities	(7,145)	(7,533)
Net cash provided by operating activities	142,546	71,563
Cash flows from investing activities		
Purchases of property and equipment	(52,600)	(55,292)
Net proceeds from the sale of assets	6,568	3,928
Acquisitions, net of cash acquired	—	(226,412)
Loans to customers	(948)	(1,005)
Payments from customers on loans	1,456	1,904
Other	(9)	(279)
Net cash used in investing activities	(45,533)	(277,156)
Cash flows from financing activities		
Proceeds from senior secured credit facility	764,934	1,160,066
Payments on senior secured credit facility	(809,058)	(918,425)
Share repurchase	(20,000)	(22,500)
Net payments related to stock-based award activities	(1,630)	(3,204)
Repayment of other long-term debt	(6,461)	(5,795)
Financing fees paid	(106)	(256)
Proceeds from exercise of stock options	—	3,207
Dividends paid	(19,452)	(18,649)

Net cash (used in) provided by financing activities	(91,773)	194,444
Cash flows from discontinued operations		
Net cash used in operating activities	(234)	(48)
Net cash used in discontinued operations	(234)	(48)
Net increase (decrease) in cash and cash equivalents	5,006	(11,197)
Cash and cash equivalents at beginning of period	15,667	24,351
Cash and cash equivalents at end of period	$ 20,673	$ 13,154

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 30, 2017.

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 October 6, 2018, 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 third quarter and year to date periods of 2018 and 2017 include the results of operations of the Company for the 12- and 40-week periods ended October 6, 2018 and October 7, 2017, respectively.

Note 2 – Adoption of New Accounting Standards and Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers – Topic 606" ("ASC 606"). 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. As of the beginning of 2018, the Company adopted ASC 606 and all subsequent ASUs that modified ASC 606. Refer to Note 3, Revenue Recognition, for additional information about adoption of this guidance and additional disclosures required under the standard.

From a principal versus agent perspective, the Company determined that certain contracts in the Food Distribution segment that were historically reported on a gross basis are now required to be reported on a net basis, resulting in a corresponding decrease to both net sales and cost of sales of $56.0 million and $151.9 million in the third quarter and year-to-date period of 2018, respectively, from what would have been recognized under previous guidance. The implementation of the guidance had no impact on gross profit, net earnings, the balance sheet, cash flows, equity, or the timing of revenue recognition in current or prior periods. The adoption of the guidance using the full retrospective method resulted in decreases to fiscal 2017 net sales and cost of sales previously reported as shown in the following table:

(In thousands)	Full Year	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter

	(52 Weeks)	(12 Weeks)	(12 Weeks)	(12 Weeks)	(16 Weeks)
2017	$ 164,283	$ 38,725	$ 38,246	$ 38,510	$ 48,802

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits.” ASU 2017-07 requires that the service cost component of pension and postretirement benefit costs be presented in the same line item as other current employee compensation costs and other components of those benefit costs be presented separately from the service cost component and outside a subtotal of income from operations, if presented. The ASU also requires that only the service cost component of pension and postretirement benefit costs is eligible for capitalization. The Company adopted this guidance as of the beginning of 2018. Accordingly, benefit costs other than service cost, are reflected in the condensed consolidated statements of earnings in Other, net, whereas they previously were recognized in Selling, general and administrative expenses. Retrospective application resulted in a decrease to Other, net and an increase in Selling, general and administrative expenses. The costs associated with the reclassifications were not material in either of the periods presented.

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract” in order to provide additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. This is an amendment to ASU 2015-05, “Intangibles—Goodwill and Other—Internal-Use Software: Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company early adopted this guidance retrospectively as of the beginning of fiscal 2018, as permitted by the amendment. The adoption of this guidance did not have a significant effect on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General: Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." The amendments in this ASU remove disclosures that are no longer considered to be cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. The amendments in ASU 2018-14 are effective for fiscal years ending after December 15, 2020 and will be applied on a retrospective basis to all periods presented. The adoption of this guidance is not expected to have a significant effect on the Company's 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 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. This guidance was effective as of the beginning of 2018. As no business combinations have occurred since the effective date, there has been no impact on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." The FASB subsequently issued ASU's 2018-01, 2018-10, and 2018-11, which include clarifications and provide various practical expedients and transition options related to ASU 2016-02. 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 rent payments. Treatment in the consolidated statements of operations 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 Company has established a transition process which includes understanding the current leasing activities, identifying changes resulting from the new standard, designing tools to account for the change, and updating accounting policies, processes and controls over financial reporting. 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. Other effects of the adoption of these ASUs are currently being evaluated by the Company.

Note 3 – Revenue

Revenue Recognition Accounting Policy

The Company recognizes revenue when it satisfies a performance obligation by transferring control of the promised goods and services to a customer, in an amount that reflects the consideration that it expects to receive in exchange for those goods or services. This is achieved through applying the following five-step model:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company generates substantially all of its revenue from contracts with customers, whether formal or implied. Sales taxes collected from customers are remitted to the appropriate taxing jurisdictions and are excluded from sales revenue as the Company considers itself a pass-through conduit for collecting and remitting sales taxes, with the exception of taxes assessed during the procurement process of select inventories. Greater than 99% of the Company's revenues are recognized at a point in time. Revenues from product sales are recognized when control of the goods is transferred to the customer, which occurs at a point in time, typically upon delivery or shipment to the customer, depending on shipping terms, or upon customer check-out in a corporate owned retail store. Freight revenues are also recognized upon delivery, at a point in time. Other revenues, including revenues from value-added services, are recognized as earned, over a period of time. All of the Company's revenues are domestic, as the Company has no performance obligations on international shipments subsequent to delivery to the domestic port. This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments.

The Company evaluates whether it is the principal (i.e., report revenues on a gross basis) or agent (i.e., report revenues on a net basis) with respect to each contract with customers. The Company determined that certain contracts in the Food Distribution segment that were historically reported on a gross basis are now required to be reported on a net basis, resulting in corresponding decreases to both net sales and cost of sales.

Based upon the nature of the products the Company sells, its customers have limited rights of return which are immaterial. Discounts provided by the Company to customers at the time of sale are recognized as a reduction in sales as the products are sold. Certain contracts include rebates and other forms of variable consideration, including up-front rebates, rebates in arrears, rebatable incentives, flex funds, and product incentives, which may have tiered structures based on purchase volumes and which are accounted for as variable consideration. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. The Company believes that there will not be significant changes to its estimates of variable consideration and has not constrained any consideration in any period presented.

Disaggregation of Revenue

The following table provides information about disaggregated revenue by type of products and customers for each of the Company's reportable segments:

(In thousands)	12 Weeks Ended October 6, 2018				40 Weeks Ended October 6, 2018			
	Food Distribution	Military	Retail	Total	Food Distribution	Military	Retail	Total
Type of products:								
Center store (a)	$ 291,830	$ 247,804	$ 175,773	$ 715,407	$ 938,460	$ 804,939	$ 576,629	$ 2,320,028
Fresh (b)	341,846	134,612	159,444	635,902	1,132,676	448,794	535,619	2,117,089
Non-food (c)	288,759	116,271	76,317	481,347	905,868	394,807	254,180	1,554,855
Fuel	—	—	34,576	34,576	—	—	110,018	110,018
Other	17,748	1,535	215	19,498	60,092	4,956	718	65,766
Total	$ 940,183	$ 500,222	$ 446,325	$ 1,886,730	$ 3,037,096	$ 1,653,496	$ 1,477,164	$ 6,167,756
Type of customers:								
Individuals	$ —	$ —	$ 446,110	$ 446,110	$ —	$ —	$ 1,476,446	$ 1,476,446
Manufacturers, brokers and distributors	44,805	479,523	—	524,328	153,673	1,598,191	—	1,751,864
Retailers	881,776	19,164	—	900,940	2,837,036	50,349	—	2,887,385
Other	13,602	1,535	215	15,352	46,387	4,956	718	52,061
Total	$ 940,183	$ 500,222	$ 446,325	$ 1,886,730	$ 3,037,096	$ 1,653,496	$ 1,477,164	$ 6,167,756

(In thousands)	12 Weeks Ended October 7, 2017				40 Weeks Ended October 7, 2017			
	Food Distribution	Military	Retail	Total	Food Distribution	Military	Retail	Total
Type of products:								
Center store (a)	$ 282,117	$ 252,386	$ 186,346	$ 720,849	$ 911,193	$ 792,819	$ 613,801	$ 2,317,813
Fresh (b)	333,814	132,980	169,094	635,888	1,124,997	434,723	571,692	2,131,412
Non-food (c)	265,654	119,150	77,502	462,306	818,572	388,637	259,549	1,466,758
Fuel	—	—	30,422	30,422	—	—	95,953	95,953
Other	17,566	1,115	252	18,933	61,663	3,842	858	66,363
Total	$ 899,151	$ 505,631	$ 463,616	$ 1,868,398	$ 2,916,425	$ 1,620,021	$ 1,541,853	$ 6,078,299

Type of customers:								
Individuals	$ —	$ —	$ 463,364	$ 463,364	$ —	$ —	$ 1,540,995	$ 1,540,995
Manufacturers, brokers and distributors	47,030	498,911	—	545,941	166,402	1,606,907	—	1,773,309
Retailers	838,438	5,605	—	844,043	2,702,318	9,272	—	2,711,590
Other	13,683	1,115	252	15,050	47,705	3,842	858	52,405
Total	$ 899,151	$ 505,631	$ 463,616	$ 1,868,398	$ 2,916,425	$ 1,620,021	$ 1,541,853	$ 6,078,299

(a) Center store includes dry grocery, frozen and beverages.

(b) Fresh includes produce, meat, dairy, deli, bakery, prepared proteins, seafood and floral.

(c) Non-food includes general merchandise, health and beauty care, tobacco products and pharmacy.

Sources of Revenue

The Company's main sources of revenue include the following:

Customer Supply Agreements (CSAs) – The Company enters into CSAs (also known as Retail Sales and Service Agreements) with many of its retailer customers. These contracts obligate the Company to supply grocery and related products upon receipt of a purchase order from its customers. The contracts often specify minimum purchases a customer is required to make - in dollars or as a percentage of their total purchases - in order to earn certain rebates or incentives. In some cases, customers are required to repay certain advanced or loaned funds if they fail to meet purchase minimums or otherwise exit the supply agreement. Many of these contracts include various performance obligations other than providing grocery products, such as providing store resets, shelf tags, signage, or merchandising services. The Company has determined that these obligations are not material in the overall context of the contracts, and as such has not allocated transaction price to these obligations. Revenue is recognized under these contracts when control of the product passes to the customer, which may happen before or after delivery depending upon specified shipping terms.

Contracts with Manufacturers and Brokers to supply the Defense Commissary Agency ("DeCA") and Other Government Agencies – DeCA operates a chain of 237 commissaries on U.S. military installations. DeCA contracts with manufacturers to obtain grocery products for the commissary system. Manufacturers either deliver the products to the commissaries themselves or, more commonly, contract with distributors such as SpartanNash to provide products to the commissaries. Manufacturers must authorize the distributors as their official representatives to DeCA, and the distributors must adhere to DeCA's frequent delivery system ("FDS") procedures governing matters such as product identification, ordering and processing, information exchange and resolution of discrepancies. The Company obtains distribution contracts with manufacturers through competitive bidding processes and direct negotiations. As commissaries need to be restocked, DeCA identifies the manufacturer with which an order is to be placed, determines which distributor is the manufacturer's official representative for a particular commissary or exchange location, and then places a product order with that distributor under the auspices of DeCA's master contract with the applicable manufacturer. The distributor selects that product from its existing inventory, delivers it to the commissary or port (in the case of overseas shipments) designated by DeCA, and bills the manufacturer for the product price plus a drayage fee that is typically based on a percentage of the purchase price, but may in some cases be based on a dollar amount per case or pound of product sold. The manufacturer then bills DeCA under the terms of its master contract. As control of the product passes to the customer upon delivery, revenue is recognized by SpartanNash at this point in time.

Revenue is recognized for the full amount paid by the vendor (for product and drayage) as the Company is a principal in the transaction and therefore should recognize revenue on a gross basis for these contracts. The FASB's definition of a principal in the transaction is centered on controlling goods before they are transferred to the customer. Key considerations supporting that SpartanNash controls the goods for these contracts prior to transfer to the customer include the following: the Company has the ability to obtain substantially all of the remaining benefits from the assets by selling the goods and/or by pledging the related assets as collateral for borrowings, the Company is required to bear the risk of inventory loss prior to transfer to the customer, has shared responsibilities in the fulfillment and acceptability of the goods, and to a lesser extent, has some discretion in establishing the price for the goods sold to DeCA. Based on a thorough evaluation of all of the facts and circumstances, including a detailed assessment and interpretation of the revenue standard, the Company concluded that it is a principal in the transaction and should recognize revenue on a gross basis for these contracts.

Retail Sales – The corporate owned retail stores recognize revenue at the time the customer takes possession of the goods. While there are no formal contracts related to these sales, they are within the scope of ASC 606. Customer returns are not material. The Company does not recognize a sale when it awards customer loyalty points or sells gift cards and gift certificates; rather, a sale is recognized when the customer loyalty points, gift card or gift certificate are redeemed to purchase product. There were no significant changes to revenue recognition in the Retail segment under

ASC 606 related to the accounting for gift card breakage and loyalty rewards, which are immaterial to the consolidated financial statements.

Contract Assets and Liabilities

Under its contracts with customers, the Company stands ready to deliver product upon receipt of a purchase order. Accordingly, the Company has no performance obligations under its contracts until its customers submit a purchase order. The Company does not receive pre-payment from its customers, or enter into commitments to provide goods or services that have terms greater than one year. As the performance obligation is part of a contract that has an original expected duration of less than one year, the Company has applied the practical expedient under ASC 606 to omit disclosures regarding remaining performance obligations.

For the first three quarters of 2018 and 2017, revenue recognized from performance obligations related to prior periods (for example, due to changes in estimated rebates and incentives impacting the transaction price) was not material.

In the ordinary course of business, the Company may advance funds to certain 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. For volume-based arrangements, the Company estimates the amount of the advanced funds earned by the retailers based on the expected volume of purchases by the retailer, and amortizes the advances as a reduction of the transaction price and revenue earned. These advances are not considered contract assets under ASC 606 as they are not generated through the transfer of goods or services to the retailers. These advances are included in Other assets, net on the Company's balance sheets.

When the Company transfers goods or services to a customer, payment is due - subject to normal terms - and is not conditional on anything other than the passage of time. Typical payment terms range from due upon receipt to 30 days, depending on the type of customer and relationship. At contract inception, the Company expects that the period of time between the transfer of goods to the customer and when the customer pays for those goods will be less than one year, which is consistent with the Company's standard payment terms. Accordingly, the Company has elected the practical expedient under ASC 606 to not adjust for the effects of a significant financing component. As such, these amounts are recorded as receivables and not contract assets. The Company had no contract assets for any period presented.

The following table presents the Company's accounts and notes receivable:

(In thousands)	October 6, 2018	December 30, 2017
Customer notes receivable	$ 2,848	$ 2,555
Customer accounts receivable	329,696	312,214
Other receivables	34,012	31,169
Allowance for doubtful accounts	(2,605)	(1,881)
Net current accounts and notes receivable	$ 363,951	$ 344,057
Long-term notes receivable	16,177	18,322
Allowance for doubtful accounts	(120)	(120)
Net long-term notes receivable	$ 16,057	$ 18,202

The Company does not typically incur incremental costs of obtaining a contract that are contingent upon successful contract execution and would therefore be capitalized. The Company expenses incremental costs of obtaining a contract as and when incurred if the expected amortization period of the asset that the Company would have recognized is one year or less.

Note 4 – 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 $76.7 million, intangible assets of $72.9 million and working capital. Intangible assets are primarily composed of customer relationships, which are amortized over fifteen years, and indefinite lived trade names. In connection with the purchase, the Company provided 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. As certain performance targets were 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 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, with reimbursement made after the third-year anniversary of the acquisition date.

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 the Southeast, Midwest and Eastern United States. BRT offers temperature-controlled distribution and logistics services throughout North America. 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 excess of the purchase price over the fair value of net assets acquired of $46.3 million was recorded as goodwill in the consolidated balance sheet within the Food Distribution segment and is deductible for tax purposes. During the measurement period, which ended January 5, 2018, the Company recorded opening balance sheet adjustments in the amount of $1.3 million, which increased the balance of goodwill, associated with updated valuations of certain acquired long-lived assets. All adjustments were made during fiscal 2017.

Note 5 – Restructuring Charges and Asset Impairment

The following table provides the activity of reserves for closed properties for the 40-week period ended October 6, 2018. 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 the timing of when the obligations are expected to be paid.

(In thousands)	Lease and Ancillary Costs	Severance	Total
Balance at December 30, 2017	$ 17,889	$ 3	$ 17,892
Provision for closing charges	4,499	—	4,499
Provision for severance	—	142	142
Other	554	—	554
Changes in estimates	(633)	—	(633)
Accretion expense	457	—	457
Payments	(4,797)	(142)	(4,939)
Balance at October 6, 2018	$ 17,969	$ 3	$ 17,972

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:

	12 Weeks Ended		40 Weeks Ended	
(In thousands)	October 6, 2018	October 7, 2017	October 6, 2018	October 7, 2017
Asset impairment charges	$ 570	$		