Chefs' Warehouse, Inc.
Form 10-Q
May 04, 2016

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 March 25, 2016

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: 001-35249

THE CHEFS' WAREHOUSE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3031526**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
100 East Ridge Road	**06877**
Ridgefield, Connecticut	
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (203) 894-1345

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 or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of shares of common stock, par value $.01 per share, outstanding at April 29, 2016: 26,215,412

THE CHEFS' WAREHOUSE, INC.

FORM 10-Q

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Statements in this report regarding the business of The Chefs' Warehouse, Inc. (the "Company") that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties and are based on current expectations and management estimates; actual results may differ materially. Words such as anticipates, expects, intends, plans, believes, seeks, estimates and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and/or could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The risks and uncertainties which could impact these statements include, but are not limited to, the Company's ability to successfully deploy its operational initiatives to achieve synergies from the acquisition of Del Monte Capitol Meat Co. and certain related entities; the Company's and its customers current economic environment, changes in disposable income levels and consumer discretionary spending on food-away-from-home purchases; the Company's sensitivity to general economic conditions, including vulnerability to economic and other developments in the geographic markets in which it operates; the risks of supply chain interruptions due to lack of long-term contracts, severe weather or more prolonged climate change, work stoppages or otherwise; the risk of loss of customers due to the fact the Company does not customarily have long-term contracts with its customers; the risks of loss of revenue or reductions in operating margins in the Company's protein business as a result of competitive pressures within this reporting unit of the Company's business; changes in the availability or cost of the Company's specialty food products; the ability to effectively price the Company's specialty food products and reduce the Company's expenses; the relatively low margins of the foodservice distribution industry and the Company's sensitivity to inflationary and deflationary pressures; the Company's ability to successfully identify, obtain financing for and complete acquisitions of other foodservice distributors and to integrate and realize expected synergies from those acquisitions; the Company's ability to begin servicing customers from its new Chicago, San Francisco and Las Vegas distribution centers and the expenses associated therewith; increased fuel cost volatility and expectations regarding the use of fuel surcharges; fluctuations in the wholesale prices of beef, poultry and seafood, including increases in these prices as a result of increases in the cost of feeding and caring for livestock; the loss of key members of the Company's management team and the Company's ability to replace such personnel; the strain on the Company's infrastructure and resources caused by its growth; and other risks and uncertainties included under the heading Risk Factors in our Annual Report on Form 10-K filed on March 4, 2016 with the Securities and Exchange Commission (the "SEC").

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	March 25, 2016 (unaudited)	December 25, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,745	$ 2,454
Accounts receivable, net of allowance of $5,875 in 2016 and $5,803 in 2015	113,333	124,139
Inventories, net	91,266	92,758
Deferred taxes, net	5,022	5,256
Prepaid expenses and other current assets	8,791	9,164
Total current assets	221,157	233,771
Equipment and leasehold improvements, net	56,023	54,283
Software costs, net	4,725	4,511
Goodwill	155,848	155,816
Intangible assets, net	129,500	132,211
Other assets	3,286	3,089
Total assets	$ 570,539	$ 583,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 57,920	$ 64,888
Accrued liabilities	23,554	24,258
Accrued compensation	5,807	7,732
Current portion of long-term debt	4,701	6,030
Total current liabilities	91,982	102,908
Long-term debt, net of current portion	262,615	266,207
Deferred taxes, net	9,954	9,316
Other liabilities and deferred credits	16,183	17,286
Total liabilities	380,734	395,717
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding March 25, 2016 and December 25, 2015	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized, 26,220,426 and 26,290,675 shares issued and outstanding March 25, 2016 and December 25, 2015, respectively	263	263
Additional paid in capital	125,433	125,170
Cumulative foreign currency translation adjustment	(2,364)	(2,949)

Retained earnings	66,473	65,480
Stockholders' equity	189,805	187,964
Total liabilities and stockholders' equity	$ 570,539	$ 583,681

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	Thirteen Week Period Ended	
	March 25, 2016	March 27, 2015
Net sales	$262,401	$197,891
Cost of sales	196,443	148,135
Gross profit	65,958	49,756
Operating expenses	60,598	46,616
Operating income	5,360	3,140
Interest expense	3,656	1,836
Loss (gain) on asset disposal	3	(349)
Income before income taxes	1,701	1,653
Provision for income tax expense	708	686
Net income	$993	$967
Other comprehensive loss:		
Foreign currency translation adjustments	585	(161)
Comprehensive income	$1,578	$806
Net income per share:		
Basic	$0.04	$0.04
Diluted	$0.04	$0.04
Weighted average common shares outstanding:		
Basic	25,884,051	24,666,557
Diluted	25,917,350	24,722,275

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Thirteen Week Period Ended	
	March 25, 2016	March 27, 2015
Cash flows from operating activities:		
Net income	$993	$967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,206	887
Amortization	2,783	1,345
Provision for allowance for doubtful accounts	1,034	662
Deferred rent	869	(15)
Deferred taxes	1,159	(722)
Amortization of deferred financing fees	358	284
Stock compensation	560	324
Change in fair value of contingent earn-out liability	(345)	40
Loss (gain) on sale of assets	3	(349)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	9,855	3,272
Inventories	1,626	4,249
Prepaid expenses and other current assets	377	2,268
Accounts payable, accrued liabilities and accrued compensation	(10,773)	(5,762)
Other liabilities	(271)	(156)
Other assets	(519)	(87)
Net cash provided by operating activities	8,915	7,207
Cash flows from investing activities:		
Capital expenditures	(3,161)	(9,053)
Proceeds from asset disposals	—	1,516
Net cash used in investing activities	(3,161)	(7,537)
Cash flows from financing activities:		
Payment of debt	(1,897)	(1,884)
Surrender of shares to pay withholding taxes	(297)	(222)
Cash paid for contingent earn-out liability	—	(1,420)
Borrowings under revolving credit facility	12,800	24,300
Payments under revolving credit facility	(16,182)	(21,700)
Net cash used in financing activities	(5,576)	(926)
Effect of foreign currency on cash and cash equivalents	113	(112)
Net increase (decrease) in cash and cash equivalents	291	(1,368)
Cash and cash equivalents-beginning of period	2,454	3,328
Cash and cash equivalents-end of period	$2,745	$1,960

Supplemental cash flow disclosures:		
Cash paid for income taxes	$1,934	$624
Cash paid for interest	$3,087	$2,052

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS AND PER SHARE DATA)

(Information as of March 25, 2016 and for the thirteen weeks ended
March 25, 2016 and March 27, 2015 is unaudited)

Note 1 Operations and Basis of Presentation

Description of Business and Basis of Presentation

The financial statements include the consolidated accounts of The Chefs' Warehouse, Inc. (the "Company"), and its wholly-owned subsidiaries. The Company's quarterly periods end on the thirteenth Friday of each quarter. Every six to seven years the Company will add a fourteenth week to its fourth quarter to more closely align its year end to the calendar year. Fiscal 2016 will include a fourteenth week in the fourth quarter. The Company operates in one reportable segment, food product distribution, which is concentrated on the East and West Coasts of the United States. The Company's customer base consists primarily of menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, culinary schools, bakeries, patisseries, chocolatiers, cruise lines, casinos and specialty food stores.

Consolidation

The consolidated financial statements include all the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Unaudited Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements and the related interim information contained within the notes to such unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules of the Securities and Exchange Commission ("SEC") for interim information and quarterly reports on Form 10-Q. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended December 25, 2015 filed as part of the Company's Annual Report on Form 10-K, as filed with the SEC on March 4, 2016.

The unaudited condensed consolidated financial statements appearing in this Form 10-Q have been prepared on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K, as filed with the SEC on March 4, 2016, and in the opinion of management include all normal recurring adjustments that are necessary for the fair statement of the Company's interim period results. The year-end condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by GAAP. Due to seasonal fluctuations and other factors, the results of operations for the thirteen weeks ended March 25, 2016 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's estimates.

Reclassification

Changes have been made to the prior period presentation in the condensed consolidated statements of operations and comprehensive income to conform to the current period presentation Amounts previously included in operating expenses are now included in net sales and cost of sales.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should 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. On August 12, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption of ASU 2014-09 is permitted but not before the original effective date (annual periods beginning after December 15, 2016). We expect to adopt this guidance when effective and adoption is not expected to have a material impact on our financial statements.

In July 2015, the FASB issued guidance to simplify the subsequent measurement of inventory. This guidance provides that inventory should be measured at lower of cost or net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2017 and is required to be applied on a prospective basis. Early adoption is permitted at the beginning of an interim or annual reporting period. We expect to adopt this guidance when effective and are still evaluating the impact this standard will have on our financial statements.

In November 2015, the FASB issued guidance to simplify the presentation of deferred income tax assets and liabilities. Current GAAP requires an entity to separate deferred income tax assets and liabilities into current and non-current classifications. This guidance requires that all deferred tax liabilities be classified as non-current. This guidance is effective for fiscal years beginning after December 15, 2016 and may be applied on a prospective or retrospective basis. Early adoption is permitted as of the beginning of an interim or annual reporting period. We expect to adopt this guidance when effective and adoption is not expected to have a material effect on our financial statements.

In February 2016, the FASB issued guidance to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Current GAAP does not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. This guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. We expect to adopt this guidance when effective and are evaluating the impact this standard will have on our financial statements.

In March 2016, the FASB issued guidance to simplify the accounting for stock compensation. This guidance requires that all excess tax benefits and deficiencies be recognized as income tax expense in the period in which they occur and that they be reflected as an operating activity in the statement of cash flows. Current GAAP has excess tax benefits recognized as additional paid in capital and as a financing activity in the statement of cash flows. In addition, the guidance gives companies the option of estimating the number of awards that will ultimately vest or accounting for forfeitures as they occur. This guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. We expect to adopt this guidance when effective and are evaluating the impact this standard will have on our financial statements.

Guidance Adopted in 2016

Simplifying the Presentation of Debt Issuance Costs. In April 2015, the FASB issued guidance on the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. We adopted this guidance retrospectively during the first quarter of 2016. As a result of adopting this guidance, total assets and total liabilities as of December 25, 2015 decreased as discussed below.

	Other Assets	**Total assets**	**Current portion of long-term debt**	**Total current liabilities**	**Long-term debt**	**Total liabilities**	**Total liabilities and stockholders' equity**
Previously reported	$5,626	$586,218	$ 6,266	$103,144	$268,508	$398,254	$ 586,218
Simplifying the Presentation of Debt Issuance Costs	(2,537)	(2,537)	(236)	(236)	(2,301)	(2,537)	(2,537)
Current presentation	**$3,089**	**$583,681**	**$ 6,030**	**$102,908**	**$266,207**	**$395,717**	**$ 583,681**

Note 2 Earnings Per Share

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

	Thirteen Weeks Ended	
	March 25, 2016	March 27, 2015
Net income per share:		
Basic	$0.04	$0.04
Diluted	$0.04	$0.04
Weighted average common shares:		
Basic	25,884,051	24,666,557
Diluted	25,917,350	24,722,275

Reconciliation of net income per common share:

	Thirteen Weeks Ended	
	March 25, 2016	March 27, 2015
Numerator:		
Net income	$993	$967
Denominator:		
Weighted average basic common shares outstanding	25,884,051	24,666,557
Dilutive effect of unvested common shares	33,299	55,718
Weighted average diluted common shares outstanding	25,917,350	24,722,275

We had unvested common shares of 156,240 and notes convertible into 1,237,374 shares that were anti-dilutive at March 25, 2016. There were no unvested common shares that were anti-dilutive at March 27, 2015.

Note 3 Fair Value Measurements; Fair Value of Financial Instruments

We account for certain assets and liabilities at fair value. We categorize each of our fair value measurements in one of the following three levels based on the lowest level input that is significant to the fair value measurement in its entirety:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities include the following:

a) quoted prices for similar assets in active markets;
b) quoted prices for identical or similar assets in inactive markets;
c) inputs other than quoted prices that are observable for the asset; and
d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable (i.e., supported by little or no market activity) and significant to the fair value measure.

Assets and Liabilities Measured at Fair Value

As of March 25, 2016, the Company's only assets or liabilities measured at fair value were the contingent earn-out liabilities for the Allen Brothers and Del Monte acquisitions. These liabilities were estimated using Level 3 inputs and had fair values of $4,344 and $13,447 at March 25, 2016, respectively. These liabilities are reflected as accrued liabilities and other liabilities and deferred credits on the balance sheet. The fair value of contingent consideration was determined based on a probability-based approach which includes projected results, percentage probability of occurrence and the application of a discount rate to present value the payments. A significant change in projected results, discount rate, or probabilities of occurrence could result in a significantly higher or lower fair value measurement.

The following table presents the changes in Level 3 contingent consideration liability:

Total

	Del Monte	Allen Brothers	
Balance December 25, 2015	$13,792	$4,344	$18,136
Changes in fair value	(345)	—	(345)
Balance March 25, 2016	$13,447	$4,344	$17,791

Fair Value of Financial Instruments

The carrying amounts reported in the Company's consolidated balance sheets for accounts receivable and accounts payable approximate fair value, due to the immediate to short-term maturity of these financial instruments. The fair values of the current and former revolving credit facilities and term loans approximated their book values as of March 25, 2016 and December 25, 2015, as these instruments had variable interest rates that reflected current market rates available to the Company. The carrying amount of the Company's senior secured notes at March 25, 2016 and December 25, 2015 approximates fair value, as the interest rate obtained by the Company approximates the prevailing interest rates available to the Company for similar instruments. The fair value of these debt instruments were estimated using Level 3 inputs.

The following table presents the carrying value and fair value of the Company's convertible subordinated notes. In estimating the fair value of these convertible secured notes, the Company utilized Level 3 inputs including, prevailing market interest rates to estimate the debt portion of the instrument and a Black Scholes valuation model to estimate the fair value of the conversion option. The Black Scholes model utilizes the market price of the Company's common stock, estimates of the stock's volatility and the prevailing risk free interest rate in calculating the fair value estimate.

	March 25, 2016		December 25, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible Secured Notes	$36,750	$35,916	$36,750	$34,300

Note 4 Acquisitions

The Company accounts for acquisitions in accordance with ASC 805 Business Combinations. Assets acquired and liabilities assumed are recorded in the accompanying consolidated balance sheet at their estimated fair values as of the acquisition date. Results of operations are included in the Company's financial statements from the date of acquisition. For the acquisition noted below, the Company used the income approach to determine the fair value of the customer relationships, the relief from royalty method to determine the fair value of trademarks and the comparison of economic income using the with/without approach to determine the fair value of non-compete agreements. The Company used Level 3 inputs to determine the fair value of all these intangible assets.

On April 6, 2015, the Company acquired substantially all the equity interests of Del Monte Capitol Meat Co. and substantially all the assets of certain of its affiliated companies (collectively "Del Monte"). Del Monte supplies high quality USDA inspected beef, pork, lamb, veal, poultry and seafood products to Northern California. The aggregate purchase price paid by the Company at closing was approximately $185,332, including the impact of an initial net working capital adjustment which is subject to a post-closing working capital adjustment true up. Approximately $123,893 was paid in cash through cash-on-hand, the proceeds from the issuance of additional senior secured notes and additional borrowings under the revolving portion of the Amended and Restated Credit Agreement (as defined below). The remaining approximately $61,439 consisted of (i) approximately 1.1 million shares of the Company's common stock totaling approximately $24,689 and (ii) $36,750 in aggregate principal amounts of convertible subordinated notes with a six-year maturity bearing interest at 2.5% with a conversion price of $29.70 per share issued to certain of the Del Monte entities. The Company will also pay additional contingent consideration, if earned, in the form of an earn-out amount which could total approximately $24,500 to certain of the Del Monte entities; the payment of the earn-out liability is subject to certain conditions, including the successful achievement of Adjusted EBITDA targets for the Del Monte entities and improvements in certain operating metrics for the Company's existing protein business and the business of any protein companies subsequently acquired by the Company over the six years following the closing of the Del Monte acquisition. At April 6, 2015, the Company estimated the fair value of this contingent earn-out liability to be $13,139. This contingent liability is adjusted to fair value on a quarterly basis and is estimated to be $13,447 at March 25, 2016. The Company expensed $1,546 of professional fees and $3,000 of transaction bonuses in operating expenses related to the Del Monte acquisition during the fiscal year ended December 25, 2015. The Company is in the process of finalizing a valuation of the tangible and intangible assets of Del Monte as of the acquisition date. These assets are being valued at fair value using Level 3 inputs. Customer lists are being amortized over 15 years and trademarks are being amortized over 20 years. Goodwill for the Del Monte acquisition will be amortized over 15 years for tax purposes. For the thirteen weeks ended March 25, 2016, the Company

reflected net sales and income before taxes and amortization of intangibles of $52,130 and $4,840, respectively, for Del Monte in its condensed consolidated statement of operations.

	Del Monte
Current assets (includes cash acquired)	$31,872
Customer Relationships	62,246
Trademarks	29,261
Goodwill	77,505
Fixed assets	5,652
Other assets	137
Earn-out liability	(13,139)
Deferred tax liability	(361)
Convertible subordinated notes	(36,750)
Issuance of common shares	(24,689)
Current liabilities	(7,841)
Cash purchase price	$123,893

Note 5 Inventory

Inventory consists of finished product. Our different entities record inventory using a mixture of first-in, first-out and average cost, which we believe approximates first-in, first-out. Inventory is reflected net of reserves for shrinkage and obsolescence totaling $1,621 and $1,956 at March 25, 2016 and December 25, 2015, respectively.

Note 6 Equipment and Leasehold Improvements

Equipment and leasehold improvements consisted of the following:

	Useful Lives	As of March 25, 2016	December 25, 2015
Land	Indefinite	$1,571	$1,571
Buildings	20 years	2,802	2,740
Machinery and equipment	5-10 years	12,292	10,739
Computers, data processing and other equipment	3-7 years	8,165	7,598
Leasehold improvements	7-22 years	42,781	41,653
Furniture and fixtures	7 years	1,826	1,488
Vehicles	5-7 years	2,072	2,077
Other	7 years	95	95
Construction-in-process		7,826	8,884
		79,430	76,845
Less: accumulated depreciation and amortization		(23,407)	(22,562)
Equipment and leasehold improvements, net		$56,023	$54,283

Construction-in-process at March 25, 2016 related primarily to the implementation of its Enterprise Resource Planning (“ERP”) system. The rollout of our ERP system will continue throughout fiscal 2016 and 2017. Construction-in process at December 25, 2015 related primarily to the build out of the Company’s new distribution facility in San Francisco, CA and the implementation of its ERP system.

At March 25, 2016 and December 25, 2015, the Company had $506 of equipment and vehicles financed by capital leases. The Company recorded depreciation on equipment under capital leases of $24 and $24 on these assets during the thirteen weeks ended March 25, 2016 and March 27, 2015, respectively.

Depreciation expense on equipment and leasehold improvements was $844 and $606 for the thirteen weeks ended March 25, 2016 and March 27, 2015, respectively.

Capitalized software is recorded net of accumulated amortization of $4,089 and $3,751 at March 25, 2016 and December 25, 2015, respectively. Depreciation expense on software was $338 and $257 for the thirteen weeks ended March 25, 2016 and March 27, 2015, respectively.

During the thirteen weeks ended March 25, 2016 and March 27, 2015, the Company incurred interest expense of $3,656 and $1,836, respectively. The Company capitalized interest expense of $0 and $486, respectively, during the same periods. Capitalized interest was related to the build outs of the new distribution facilities in Bronx, NY and Las Vegas, NV.

Note 7 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill are presented as follows:

Carrying amount as of December 25, 2015	$155,816
Foreign currency translation	32
Carrying amount as of March 25, 2016	$155,848

Other intangible assets consist of customer relationships being amortized over a period ranging from four to twenty years, trademarks being amortized over a period of one to forty years, and non-compete agreements being amortized over a period of two to six years. Other intangible assets consisted of the following at March 25, 2016 and December 25, 2015:

	Gross Carrying Amount	Accumulated Amortization	Net Amount
March 25, 2016;			
Customer relationships	$94,145	(14,506)	$79,639
Non-compete agreements	7,166	(4,556)	2,610
Trademarks	52,584	(5,333)	47,251
Total	$153,895	(24,395)	$129,500
December 25, 2015:			
Customer relationships	$94,097	(12,755)	$81,342
Non-compete agreements	7,166	(4,213)	2,953
Trademarks	52,549	(4,633)	47,916
Total	$153,812	(21,601)	$132,211

Amortization expense for other intangibles was $2,783 and $1,345 for the thirteen weeks ended March 25, 2016 and March 27, 2015, respectively.

Estimated amortization expense for other intangibles for the fiscal year ending December 30, 2016 and each of the next four fiscal years and thereafter is as follows:

2016	$10,791
2017	10,756
2018	9,617
2019	9,340
2020	9,067
Thereafter	82,640
Total	$132,211

Note 8 Debt Obligations

Debt obligations as of March 25, 2016 and December 25, 2015 consisted of the following:

	March 25, 2016	December 25, 2015

Senior secured notes	$125,000	$ 125,000
Revolving credit facility	90,000	93,382
Term loan	3,181	4,681
New Markets Tax Credit loan	11,000	11,000
Convertible subordinated notes	36,750	36,750
Capital leases and financed software	3,564	3,961
Deferred finance fees	(2,179)	(2,537)
Total debt obligations	267,316	272,237
Less: current installments	(4,701)	(6,030)
Total debt obligations excluding current installments	$262,615	$ 266,207

As of March 25, 2016, the Company was in compliance with all debt covenants and the Company had reserved $6,495 of the revolving credit facility portion of the Amended and Restated Credit Agreement for the issuance of letters of credit. As of March 25, 2016, funds totaling $43,505 were available for borrowing under the revolving credit facility portion of the Amended and Restated Credit Agreement.

Note 9 Stockholders Equity

During the thirteen weeks ended March 25, 2016, the Company granted 120,325 restricted stock awards ("RSAs") to its employees at a weighted average grant date fair value of $20.23 each. These awards are a mix of time and performance based grants which will vest over periods of two to four years. During the thirteen weeks ended March 25, 2016, the Company recognized expense totaling $53 on these RSAs and $451 of expense for RSAs issued in prior years.

During the thirteen weeks ended March 25, 2016, the Company granted 259,577 non-qualified stock options with market condition provisions to its employees at a weighted average grant date fair value of $7.82 each. These awards vest over a period of three years and require the Company's stock to trade at or above $30 per share for 20 consecutive days within four years of issuance to meet the market condition threshold. During the thirteen weeks ended March 25, 2016, the Company recognized expense totaling $56 on these options.

At March 25, 2016, the Company had 322,262 unvested RSAs outstanding. At March 25, 2016, the total unrecognized compensation cost for these unvested RSAs was $5,444, and the weighted-average remaining useful life was approximately 21 months. Of this total, $3,981 related to RSAs with time-based vesting provisions and $1,463 related to RSAs with performance-based vesting provisions. At March 25, 2016, the weighted-average remaining useful lives for time-based vesting RSAs and performance-based vesting RSAs were approximately 19 months and 26 months, respectively. No compensation expense related to the Company's RSAs has been capitalized.

As of March 25, 2016, there were 656,150 shares available for grant under the Company's 2011 Omnibus Equity Incentive Plan.

Note 10 Related Parties

The Company leases two warehouse facilities from related parties. These facilities are 100% owned by entities controlled by certain of the Company's current and former directors and officers and current stockholders and are deemed to be affiliates of those individuals. Expenses related to these facilities totaled $216 and $412, respectively, during the thirteen weeks ended March 25, 2016 and March 27, 2015. One of the facilities is a distribution facility leased by Chefs' Warehouse Mid-Atlantic, LLC for which the Company recently extended the lease expiration date to September 30, 2019. The other facility is a distribution facility which one of the Company's subsidiaries, Dairyland, sublet from TCW Leasing Co., LLC ("Leasing"), an entity controlled by the Company's founders.

Each of Christopher Pappas, CEO, John Pappas, Vice Chairman and Dean Facatselis (the brother-in-law of Messrs. Pappas) owns 8.33% of a New York City-based restaurant customer of the Company and its subsidiaries that purchased approximately $26 and $27, respectively, of products from the Company during the thirteen weeks ended March 25, 2016 and March 27, 2015. Messrs. Pappas and Facatselis have no other interest in the restaurant other than these equity interests and are not involved in the day-to-day operation or management of this restaurant.

An entity owned 50% by John Couri, a director of the Company, and of which Messrs. C. Pappas and S. Hanson (also directors of the Company) previously held ownership interests owns an interest in an aircraft that the Company uses for business purposes in the course of its operations. Mr. Couri paid for his ownership interest in the aircraft himself and bears his share of all operating, personnel and maintenance costs associated with the operation of this aircraft. The Company made payments of $0 and $32, respectively for the thirteen weeks ended March 25, 2016 and March 27, 2015 for use of such aircraft. All payments were paid directly to an entity that manages the aircraft in which Mr. Couri has a *de minimis* indirect ownership interest.

The Company paid $231 and $134 to Architexture Studios, Inc. for interior decorating and design including the purchase of furniture and leasehold improvements primarily for our Las Vegas, San Francisco and Chicago facilities during the thirteen weeks ended March 25, 2016 and March 27, 2015, respectively. This entity is owned by Julie Hardridge, the sister-in-law of Christopher Pappas.

With the acquisition of Del Monte, the Company acquired two warehouse facilities that the Company leases from certain prior owners of Del Monte. Three of the owners are current employees, one of whom, John DeBenedetti, serves on the Company's board of directors. The first property is located in American Canyon, CA and is owned by TJ Management Co. LLC, an entity owned 50% by John DeBenedetti and 50% by Theresa Lincoln, John DeBenedetti's sister. The Company paid rent on this facility totaling $52 for the thirteen weeks ended March 25, 2016. The second property is located in West Sacramento, CA and is owned by David DeBenedetti and Victoria DeBenedetti, the parents of John DeBenedetti. The Company paid rent on this facility totaling $56 for the thirteen weeks ended March 27, 2016. John DeBenedetti, Theresa Lincoln and Victoria DeBenedetti are employees of a subsidiary of the Company.

John DeBenedetti and Theresa Lincoln, indirectly through TJ Investments, LLC, own a 16.67% ownership interest in Old World Provisions, which supplies products to the Company following the Del Monte acquisition. During the thirteen weeks ended March 25, 2016 the Company purchased approximately $148 of products from Old World Provisions. Neither Mr. J. DeBenedetti nor Ms. Lincoln is involved in the day-to-day management of Old World Provisions.

Note 11 Commitments and Contingencies

Until February 29, 2016, the Company sublet a distribution facility from Leasing (an entity controlled by the Company's founders). Leasing leases the distribution center from the New York City Industrial Development Agency. In connection with this sublease arrangement and Leasing's obligations under a related mortgage to its mortgage lender, the Company, Dairyland and another of the Company's subsidiaries initially were required to act as guarantors of Leasing's mortgage obligation on the distribution center. The mortgage payoff date is December 2029 and the potential obligation under this guarantee totaled $5,498 at March 25, 2016. By agreement dated July 1, 2005, the lender released the Company and its subsidiaries from their guaranty obligations, provided the sublease between Dairyland and Leasing remained in full force and effect. As of February 29, 2016, Dairyland exited the sublease arrangement with Leasing, triggering the guarantee obligation. The Company believes that the fair value of the building securing the mortgage more than offsets any potential obligation. In addition, Leasing is in the process of refinancing its mortgage with another lender. The Company, upon completion of the refinancing, expects that the Company and its subsidiaries will be unconditionally and fully released from any guaranty of Leasing's mortgage loan.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to the accompanying condensed consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in our financial condition and results of operations. The following discussion should be read in conjunction with information included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 4, 2016. Unless otherwise indicated, the terms Company, Chefs' Warehouse, we, us and our refer to The Chefs' Warehouse, Inc. and its subsidiaries. All dollar amounts are in thousands.

OVERVIEW

We are a premier distributor of specialty foods in eight of the leading culinary markets in the United States. We offer more than 34,000 SKUs, ranging from high-quality specialty foods and ingredients to basic ingredients and staples and center-of-the-plate proteins. We serve more than 26,000 customer locations, primarily located in our 15 geographic markets across the United States and Canada, and the majority of our customers are independent restaurants and fine dining establishments. As a result of our acquisition of Allen Brothers, we also sell certain of our center-of-the-plate products directly to consumers.

We believe several key differentiating factors of our business model have enabled us to execute our strategy consistently and profitably across our expanding customer base. These factors consist of a portfolio of distinctive and hard-to-find specialty food products, an extensive selection of center-of-the-plate proteins, a highly trained and motivated sales force, strong sourcing capabilities, a fully integrated warehouse management system, a highly sophisticated distribution and logistics platform and a focused, seasoned management team.

In recent years, our sales to existing and new customers have increased through the continued growth in demand for specialty food products and center-of-the-plate products in general; increased market share driven by our large percentage of sophisticated and experienced sales professionals, our high-quality customer service and our extensive breadth and depth of product offerings, including, as a result of our acquisitions of Michael's in August 2012, Allen Brothers in December 2013 and Del Monte in April 2015, meat, seafood and other center-of-the-plate products, and, as a result of our acquisition of Qzina in May 2013, gourmet chocolate, pastries and dessert; the acquisition of other specialty food and center-of-the-plate distributors; the expansion of our existing distribution centers; our entry into new distribution centers, including the construction of a new distribution center in Chicago; and the import and sale of our proprietary brands. Through these efforts, we believe that we have been able to expand our customer base, enhance and diversify our product selections, broaden our geographic penetration and increase our market share.

RECENT ACQUISITIONS

On April 6, 2015, we acquired substantially all the equity interests of Del Monte Capitol Meat Co. and substantially all the assets of certain of its affiliated companies (collectively, "Del Monte") for an initial purchase price of approximately $185,332, including the initial net working capital adjustment. Founded in 1926, Del Monte supplies high quality, USDA inspected beef, pork, lamb, veal, poultry and seafood products to Northern California. The funding of the acquisition consisted of the following:

- $123,893 in cash, which was funded with cash-on-hand, borrowings under the revolving credit facility portion of our senior secured credit facilities and the issuance of $25,000 of additional senior secured notes that bear interest at 5.80% per annum due on October 17, 2020;
- approximately 1.1 million shares of our common stock (valued at $22.17 per share); and

- $36,750 in convertible subordinated notes issued to certain entities affiliated with Del Monte with a six-year maturity bearing interest at 2.50% with a conversion price of $29.70 per share.

In addition, we have agreed to pay additional contingent consideration of up to $24,500 upon the successful achievement of Adjusted EBITDA targets for the Del Monte entities and improvements in certain operating metrics for our existing protein business and the business of any protein companies subsequently acquired by the Company over the six years following the closing. The final amount of the purchase price for Del Monte is subject to certain customary post-closing adjustments and finalization of our purchase accounting adjustments.

Our Growth Strategies and Outlook

We continue to invest in our people, facilities and technology in an effort to achieve the following objectives and maintain our premier position within the specialty foodservice distribution market:

- sales and service territory expansion;
- operational excellence and high customer service levels;
- expanded purchasing programs and improved buying power;
- product innovation and new product category introduction;
- operational efficiencies through system enhancements; and
- operating expense reduction through the centralization of general and administrative functions.

Our growth has allowed us to improve upon our organization's infrastructure, open new distribution facilities and pursue selective acquisitions. Over the last several years, we have increased our distribution capacity to approximately 1.2 million square feet in 22 distribution facilities at March 25, 2016. From the second half of fiscal 2013 through the first quarter of fiscal 2016, we have invested significantly in acquisitions, infrastructure and management.

Key Factors Affecting Our Performance

Due to our focus on menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, culinary schools, bakeries, patisseries, chocolatiers, cruise lines, casinos and specialty food stores, our results of operations are materially impacted by the success of the food-away-from-home industry in the United States and Canada, which is materially impacted by general economic conditions, weather, discretionary spending levels and consumer confidence. When economic conditions deteriorate, our customers businesses are negatively impacted as fewer people eat away-from-home and those who do spend less money. As economic conditions begin to improve, our customers' businesses historically have likewise improved, which contributes to improvements in our business. Likewise, the direct to consumer business of our Allen Brothers subsidiary is significantly dependent on consumers' discretionary spending habits, and weakness or uncertainty in the economy could lead to consumers buying less from Allen Brothers.

Volatile food costs may have a direct impact upon our profitability. Prolonged periods of product cost inflation may have a negative impact on our profit margins and results of operations to the extent we are unable to pass on all or a portion of such product cost increases to our customers. In addition, product cost inflation may negatively impact consumer discretionary spending decisions within our customers' establishments, which could adversely impact our sales. Conversely, our profit levels may be negatively impacted during periods of product cost deflation even though our gross profit as a percentage of sales may remain relatively constant. However, some of our products, particularly certain of our protein items, are priced on a cost plus a dollar markup, which helps mitigate the negative impact of deflation.

Given our wide selection of product categories, as well as the continuous introduction of new products, we can experience shifts in product sales mix that have an impact on net sales and gross profit margins. This mix shift is most significantly impacted by the introduction of new categories of products in markets that we have more recently entered, the shift in product mix resulting from acquisitions, as well as the continued growth in item penetration on higher velocity items such as dairy products.

The foodservice distribution industry is fragmented but consolidating, and we have supplemented our internal growth through selective strategic acquisitions. We believe that the consolidation trends in the foodservice distribution industry will continue to present acquisition opportunities for us, which may allow us to grow our business at a faster pace than we would otherwise be able to grow the business organically.

RESULTS OF OPERATIONS

The following table presents, for the periods indicated, certain income and expense items expressed as a percentage of net sales:

	Thirteen Weeks Ended	
	March 25, 2016	March 27, 2015
Net sales	100.0%	100.0%
Cost of sales	74.9 %	74.9 %
Gross profit	25.1 %	25.1 %
Operating expenses	23.1 %	23.6 %
Operating income	2.0 %	1.6 %
Other expense:		
Interest expense and gain (loss) on sale of assets	1.4 %	0.8 %
Income before income tax expense	0.6 %	0.8 %
Provision for income taxes	0.2 %	0.3 %
Net income	0.4 %	0.5 %

Management evaluates the results of operations and cash flows using a variety of key performance indicators, including net sales compared to prior periods and internal forecasts, costs of our products and results of our cost-control initiatives, and use of operating cash. These indicators are discussed throughout the Results of Operations and Liquidity and Capital Resources sections of this MD&A.

Thirteen Weeks Ended March 25, 2016 Compared to Thirteen Weeks Ended March 27, 2015

Net Sales

Our net sales for the thirteen weeks ended March 25, 2016 increased approximately 32.6%, or $64,510 to $262,401 from $197,891 for the thirteen weeks ended March 25, 2016. The increase in net sales was primarily the result of the acquisition of Del Monte as well as organic sales growth. Del Monte contributed approximately $52,130, or 26.3%, to net sales growth for the quarter. Organic growth contributed the remaining approximately $12,380, or 6.3%, of total net sales growth. Internally calculated inflation was approximately 0.7% during the thirteen weeks ended March 25, 2016, driven largely by inflation in the dairy category offset in part by deflation in protein.

Gross Profit

Gross profit increased approximately 32.6%, or $16,202, to $65,958 for the thirteen weeks ended March 25, 2016, from $49,756 for the thirteen weeks ended March 27, 2015. Gross profit margin remained flat at 25.1% for both the first quarter of 2016 and the first quarter of 2015. Gross profit margins decreased approximately 52 basis points in the Company’s specialty division compared to very strong margins in the thirteen weeks ended March 27, 2015. Gross profit margins increased approximately 417 basis points in the protein division due to improved performance of the Company’s Allen Brothers subsidiary and the mix contribution from Del Monte.

Operating Expenses

Total operating expenses increased by approximately 30.0%, or $13,982, to $60,598 for the thirteen weeks ended March 25, 2016 from $46,616 for the thirteen weeks ended March 27, 2015. As a percentage of net sales, operating expenses were 23.1% in the first quarter of 2016 compared to 23.6% in the first quarter of 2015. The decrease in our operating expense ratio is largely attributable to favorable transportation related costs and prior year transaction costs related to the Company's acquisition of Del Monte, offset in part by higher occupancy related costs associated with new warehouse facilities and higher amortization expense related to the Del Monte acquisition.

Operating Income

Operating income increased by approximately 70.7%, or $2,220, to $5,360 for the thirteen weeks ended March 25, 2016 from $3,140 for the thirteen weeks ended March 27, 2015. As a percentage of net sales, operating income increased to 2.0% for the thirteen weeks ended March 25, 2016 from 1.6% for the thirteen weeks ended March 27, 2015. The increase in operating income as a percentage of net sales was driven primarily from the improvement in operating expense leverage discussed above.

Interest Expense

Total interest expense increased $1,820 to $3,656 for the thirteen weeks ended March 25, 2016 from $1,836 for the thirteen weeks ended March 27, 2015. This increase can be attributed to higher levels of debt related to the financing of the Del Monte acquisition.

Provision for Income Taxes

For the thirteen weeks ended March 25, 2016, we recorded an effective income tax rate of 41.6%. For the thirteen weeks ended March 27, 2015, our effective income tax rate was 41.5%.

Net Income

Reflecting the factors described above, net income increased $26 to $993 for the thirteen weeks ended March 25, 2016, compared to net income of $967 for the thirteen weeks ended March 27, 2015.

Product Category Sales Mix

The sales mix for the principal product categories for thirteen weeks ended March 25, 2016 is as follows (dollars in thousands):

	Thirteen Weeks Ended			
	March 25, 2016		March 27, 2015	
Center of the Plate	$127,095	49 %	$71,782	36 %
Dry Goods	44,768	17 %	42,005	21 %
Pastry	35,421	13 %	33,962	17 %
Cheese	20,386	8 %	19,757	10 %
Oils and Vinegar	13,770	5 %	12,968	7 %
Dairy	16,916	6 %	13,488	7 %
Kitchen Supplies	4,045	2 %	3,929	2 %
Total	$262,401	100%	$197,891	100%

LIQUIDITY AND CAPITAL RESOURCES

We finance our day-to-day operations and growth primarily with cash flows from operations, borrowings under our senior secured credit facilities, operating leases, trade payables and bank indebtedness.

Senior Secured Credit Facilities

On April 25, 2012, the Company and certain of its subsidiaries entered into a senior secured credit facility (the “Credit Agreement”) with the group of lenders with JPMorgan Chase Bank, N.A. (“Chase”), as administrative agent. Subsequent to that date, the Credit Agreement has been amended and restated (the “Amended and Restated Credit Agreement”) to meet the changing requirements of the Company.

The Amended and Restated Credit Agreement provides for a senior secured term loan facility (the “Term Loan Facility”) in the aggregate amount of up to $36,000 (the loans thereunder, the “Term Loans”) and a senior secured revolving loan facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Credit Facilities”) of up to an aggregate amount of $140,000 (the loans thereunder, the “Revolving Credit Loans”). Unutilized commitments under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement are subject to a per annum fee of from 0.35% to 0.45% based on the Leverage Ratio (as defined therein). A fronting fee of 0.25% per annum is payable on the face amount of each letter of credit issued under the Credit Facilities.

The final maturity of the Term Loans is April 25, 2017. Subject to adjustment for prepayments, we are required to make quarterly principal payments of $1,500 on the Term Loans on June 30, September 30, December 31 and March 31, with the remaining balance due upon maturity.

Borrowings under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement have been used, and are expected to be used, for capital expenditures, permitted acquisitions, working capital and general corporate purposes of the Company. The commitments under the Revolving Credit Facility expire on April 25, 2017 and any Revolving Credit Loans then outstanding will be payable in full at that time. As of March 25, 2016, we had $43,405 of availability under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement.

Current borrowings under the Amended and Restated Credit Agreement bear interest according to a pricing grid based upon our Total Leverage Ratio. As of March 25, 2016 our interest rate was 3.8%.

The Amended and Restated Credit Agreement has covenants for Total Leverage Ratio, Senior Leverage Ratio and Fixed Charge Ratio. As of March 25, 2016, the Company was in compliance with all debt covenants under the Amended and Restated Credit Agreement, as amended.

New Markets Tax Credit Loan

On April 26, 2012, Dairyland HP LLC ("DHP"), an indirectly wholly-owned subsidiary of ours, entered into a financing arrangement under the New Markets Tax Credit ("NMTC") program under the Internal Revenue Code of 1986, as amended, pursuant to which a subsidiary of Chase, provided to DHP an $11,000 construction loan (the "NMTC Loan") to help fund DHP's expansion and build-out of our Bronx, New York facility and the rail shed located at that facility, which construction is required under the facility lease agreement. Borrowings under the NMTC Loan are secured by a first priority secured lien on DHPs leasehold interest in our Bronx, New York facility, including all improvements made on the premises, as well as, among other things, a lien on all fixtures incorporated into the project improvements.

Under the NMTC Loan, DHP is obligated to pay (i) monthly interest payments on the principal balance then outstanding and (ii) the entire unpaid principal balance then due and owing on April 26, 2017. So long as DHP is not in default, interest accrues on borrowings at 1.00% per annum. We may prepay the NMTC Loan, in whole or in part, in $100 increments.

As of March 25, 2016, DHP was in compliance with all debt covenants under the NMTC Loan.

Senior Secured Notes

On April 17, 2013, the Company and certain of its subsidiaries issued $100,000 principal amount of 5.90% Guaranteed Senior Secured Notes due 2023 (the "Notes"). The Notes are guaranteed by the certain subsidiaries of the Company. The Notes, which rank pari passu with the Company's obligations under the Credit Facilities, were issued to The Prudential Insurance Company of America and certain of its affiliates (collectively, "Prudential") pursuant to a note purchase and guarantee agreement dated as of April 17, 2013 (the "Note Purchase and Guarantee Agreement") between the Company and Prudential. The net proceeds from the issuance of the Notes were used to repay then-outstanding borrowings under the Revolving Credit Facility.

The Notes must be repaid in two equal installments, the first $50,000 of which is due April 17, 2018 and the second $50,000 of which is due at maturity on April 17, 2023. Moreover, the Company may prepay the Notes in amounts not less than $1,000 at 100% of the principal amount of the Notes repaid plus the applicable Make-Whole Amount (as defined in the Note Purchase and Guarantee Agreement).

On April 6, 2015, the Company issued $25,000 principal amount of 5.80% Series B Guaranteed Senior Secured Notes due October 17, 2020 to help fund the acquisition of Del Monte. The notes, which rank pari passu with the Company's obligations under the Credit Facilities, were issued to Prudential pursuant to a Supplemental Note Purchase and Guarantee Agreement and Amendment Agreement dated as of April 6, 2015. In connection with the issuance of these notes, we entered into an amendment to our Amended and Restated Credit Agreement to permit the issuance of the notes.

On July 1, 2015, the Company entered into an amendment to the Note Purchase and Guarantee Agreement to permit an increase in the applicable rate of the Notes by 0.25% during the period of the Financial Covenants Adjustment.

The Note Purchase and Guarantee Agreement contains financial covenants related to leverage and fixed charges that are substantially the same as the corresponding provisions in the Amended and Restated Credit Agreement, as amended. As of March 25, 2016, the Company was in compliance with all debt covenants under the Notes and the Note Purchase and Guarantee Agreement, as amended.

Convertible Subordinated Notes

On April 6, 2015, the Company issued $36,750 principal amount of convertible subordinated notes with a six-year maturity bearing interest at 2.5% and a conversion price of $29.70 per share (the “Convertible Subordinated Notes”) to certain of the Del Monte entities as partial consideration in the Del Monte acquisition. The holders of the Convertible Subordinated Notes may, in certain instances beginning one year after issuance, redeem the Convertible Subordinated Notes for cash or shares of the Company’s common stock. Moreover, the Company may pay the outstanding principal amount due and owing under the Convertible Subordinated Notes at maturity in either cash or shares of the Company’s common stock. Interest is payable annually in cash with the first interest payment due on April 6, 2016. The Convertible Subordinated Notes, which are subordinate to the Company’s and its subsidiaries’ senior debt, are convertible into shares of the Company’s common stock by the holders at any time at a conversion price of $29.70.

Liquidity

We believe our capital expenditures, excluding cash paid for acquisitions, for fiscal 2016 will be approximately $14,000. The significant decrease from $21,656 in fiscal 2015 in projected capital expenditures in fiscal 2016 as compared to fiscal 2015 is the result of the completion of the renovation and expansion of our new Bronx, NY and Las Vegas, NV distribution facilities. Recurring capital expenditures will be financed with cash generated from operations and borrowings under our Revolving Credit Facility. Our planned capital projects will provide both new and expanded facilities and improvements to our technology that we believe will produce increased efficiency and the capacity to continue to support the growth of our customer base. Future investments and acquisitions will be financed through either internally generated cash flow, borrowings under our senior secured credit facilities in place at the time of the potential investment or acquisition or through the issuance of equity or debt securities, including, but not limited to, longer-term, fixed-rate debt securities and shares of our common stock.

In July 2015, we closed on a sale-leaseback transaction of our new Las Vegas, NV distribution facility. The property was sold for $14,645, which approximated its cost. The related on-going lease will be accounted for as an operating lease.

Net cash provided by operations was $8,915 for thirteen weeks ended March 25, 2016, an increase of $1,708 from the $7,207 provided by operations for thirteen weeks ended March 27, 2015. The primary reasons for the increase in net cash provided by operations were increased cash generated through net income, partially offset by a decrease in cash provided by changes in working capital and other operating assets and liabilities. During the first quarter of fiscal 2016 net income increased by $26 and, embedded within the net income increase, non-cash charges increased by $5,171, representing an overall increase of cash provided through net income of $5,197. The primary cause for this increase is the organic growth of the Company as well as the cash generating impacts of the Del Monte acquisition. Offsetting these positive impacts were increased interest costs and income tax payments. The decrease in cash provided by changes in working capital was primarily due to an increase in cash used for accounts payable of $5,011 and a decrease in cash provided by inventory of $2,623 and prepaid expenses and other current assets of $1,891, offset by an increase in cash provided from accounts receivables of $6,583.

Net cash used in investing activities was $3,161 for thirteen weeks ended March 25, 2016, a decrease of $4,376 from the net cash used in investing activities of $7,537 for the thirteen weeks ended March 27, 2015. The decrease in net cash used was primarily due to lower capital expenditures the result of completing construction of our Bronx, NY and Las Vegas, NV distribution facilities offset, in part, by the sale of one of our owned facilities in the thirteen weeks ended March 27, 2015.

Net cash used in financing activities was $5,576 for the thirteen weeks ended March 25, 2016, an increase of $4,650 from the $926 used in financing activities for the thirteen weeks ended March 27, 2015. This increase was primarily due to the payments made to pay down our revolving credit facility in the thirteen weeks ended March 25, 2016, the result of improved cash flow from operations and lower capital expenditures. This increase was offset in part, by payments of contingent earn-out obligations which were made in the thirteen weeks ended March 27, 2015 that did not reoccur in the thirteen weeks ended March 25, 2015.

Seasonality

Excluding our direct-to-consumer business, we generally do not experience any material seasonality. However, our sales and operating results may vary from quarter to quarter due to factors such as changes in our operating expenses, management’s ability to execute our operating and growth strategies, personnel changes, demand for our products, supply shortages, weather patterns and general economic conditions.

Our direct-to-consumer business is subject to seasonal fluctuations, with direct-to-consumer center-of-the-plate protein sales typically higher during the holiday season in our fourth quarter; accordingly, a disproportionate amount of operating cash flows from this portion of our business is generated by our direct-to-consumer business in the fourth quarter of our fiscal year. Despite a significant portion of these sales occurring in the fourth quarter, there are operating expenses, principally advertising and promotional expenses, throughout the year.

Inflation

Our profitability is dependent on, among other things, our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our customers. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our operations.

Off-Balance Sheet Arrangements

As of March 25, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

The preparation of the Company's condensed consolidated financial statements requires it to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The SEC has defined critical accounting policies as those that are both most important to the portrayal of the Company's financial condition and results and require its most difficult, complex or subjective judgments or estimates. Based on this definition, we believe our critical accounting policies include the following: (i) determining the allowance for doubtful accounts, (ii) inventory valuation, with regard to determining the reserve for excess and obsolete inventory, (iii) valuing goodwill and intangible assets, (iv) vendor rebates and other promotional incentives, (v) self-insurance reserves, (vi) accounting for income taxes and (vii) contingent earn-out liabilities. For all financial statement periods presented, there have been no material modifications to the application of these critical accounting policies.

Allowance for Doubtful Accounts

We analyze customer creditworthiness, accounts receivable balances, payment history, payment terms and historical bad debt levels when evaluating the adequacy of our allowance for doubtful accounts. In instances where a reserve has been recorded for a particular customer, future sales to the customer are either conducted using cash-on-delivery terms or the account is closely monitored so that agreed-upon payments are received prior to orders being released. A failure to pay results in held or cancelled orders. Our accounts receivable balance was $113,333 and $124,139, net of the allowance for doubtful accounts of $5,875 and $5,803, as of March 25, 2016 and December 25, 2015, respectively.

Inventory Valuation

We maintain reserves for slow-moving and obsolete inventories. These reserves are primarily based upon inventory age plus specifically identified inventory items and overall economic conditions. A sudden and unexpected change in consumer preferences or change in overall economic conditions could result in a significant change in the reserve balance and could require a corresponding charge to earnings. We actively manage our inventory levels as we seek to minimize the risk of loss and have consistently achieved a relatively high level of inventory turnover.

Valuation of Goodwill and Intangible Assets

We are required to test goodwill for impairment at least annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. We have elected to perform our annual tests for indications of goodwill impairment during the fourth quarter of each fiscal year. We test for goodwill impairment at the reporting unit level, as we aggregate our component units into two reporting units, Protein and Specialty, based on a discounted cash flow approach. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing our estimated fair value to our carrying value, including goodwill. If our estimated fair value exceeds our carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. If required, the second step involves calculating an implied fair value of our goodwill. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if we were being acquired in a business combination. If the implied fair value of our goodwill exceeds the carrying value of our goodwill, there is no impairment. If the carrying value of our goodwill exceeds the implied fair value of our goodwill, an impairment charge is recorded for the excess.

When analyzing whether to aggregate the business components into single reporting units, the Company considers whether each component has similar economic characteristics. The Company has evaluated the economic characteristics of its different geographic markets, including its recently acquired businesses, along with the similarity of the operations and margins, nature of the products, type of customer and methods of distribution of products and the regulatory environment in which the Company operates and concluded that the business components can be combined into two reporting units, Protein and Specialty.

In fiscal 2015, our annual assessment indicated that we are not at risk of failing step one of the goodwill impairment test and no impairment of goodwill existed, as the fair value of each reporting unit exceeded their carrying value. We have noted no indicators of impairment during the thirteen weeks ended March 25, 2016. Total goodwill as of March 25, 2016 and December 25, 2015 was $155,848 and $155,816, respectively.

Intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Cash flows expected to be generated by the related assets are estimated

over the assets useful lives based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow model. There have been no events or changes in circumstances during 2016 or 2015 indicating that the carrying value of our finite-lived intangible assets are not recoverable. Total finite-lived intangible assets as of March 25, 2016 and December 25, 2015 were $129,500 and $132,211, respectively.

The assessment of the recoverability of goodwill and intangible assets will be impacted if estimated future cash flows are not achieved.

Vendor Rebates and Other Promotional Incentives

We participate in various rebate and promotional incentives with our suppliers, including volume and growth rebates, annual incentives and promotional programs. In accounting for vendor rebates, we follow the guidance in ASC 605-50 (Emerging Issues Task Force, or EITF, No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* and EITF No. 03-10, *Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers).*

We generally record consideration received under these incentives as a reduction of cost of goods sold; however, in certain circumstances, we record marketing-related consideration as a reduction of marketing costs incurred. We may receive consideration in the form of cash and/or invoice deductions.

We record consideration that we receive for volume and growth rebates and annual incentives as a reduction of cost of goods sold. We systematically and rationally allocate the consideration for those incentives to each of the underlying transactions that results in progress by us toward earning the incentives. If the incentives are not probable and reasonably estimable, we record the incentives as the underlying objectives or milestones are achieved. We record annual incentives when we earn them, generally over the agreement period. We record consideration received to promote and sell the suppliers' products as a reduction of our costs, as the consideration is typically a reimbursement of costs incurred by us. If we received consideration from the suppliers in excess of our costs, we record any excess as a reduction of cost of goods sold.

Self-Insurance Reserves

Effective October 1, 2011, we began maintaining a self-insured group medical program. The program contains individual stop loss thresholds of $125 per incident and aggregate stop loss thresholds based upon the average number of employees enrolled in the program throughout the year. The amount in excess of the self-insured levels is fully insured by third party insurers. Liabilities associated with this program are estimated in part by considering historical claims experience and medical cost trends. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Effective August 1, 2012, we became self-insured for workers' compensation and automobile liability to deductibles or self-insured retentions of $350 for workers compensation and $250 for automobile liability per occurrence. The amounts in excess of our deductibles are fully insured by third party insurers. Liabilities associated with this program are estimated in part by considering historical claims experience and cost trends. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Income Taxes

The determination of our provision for income taxes requires significant judgment, the use of estimates and the interpretation and application of complex tax laws. Our provision for income taxes primarily reflects a combination of income earned and taxed in the various U.S. federal and state jurisdictions. Jurisdictional tax law changes, increases or decreases in permanent differences between book and tax items, accruals or adjustments of accruals for unrecognized tax benefits, and our change in the mix of earnings from these taxing jurisdictions all affect the overall effective tax rate.

Contingent Earn-out Liabilities

We account for contingent consideration relating to business combinations as a liability and an increase to goodwill at the date of the acquisition and continually re-measure the liability at each balance sheet date by recording changes in the fair value through our Consolidated Statements of Operations. We determine the fair value of contingent consideration based on future operating projections under various potential scenarios, including the use of Monte Carlo simulations, and weight the probability of these outcomes. The ultimate settlement of contingent earn-out liabilities relating to business combinations may be for amounts which are materially different from the amounts initially recorded and may cause volatility in our results of operations.

Management has discussed the development and selection of these critical accounting policies with our Audit Committee, and the Audit Committee has reviewed the above disclosure. Our condensed consolidated financial statements contain other items that require estimation, but are not as critical as those discussed above. These other items include our calculations for bonus accruals, depreciation and amortization. Changes in estimates and

assumptions used in these and other items could have an effect on our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

On April 25, 2012, the Borrowers and the Guarantors entered into the Credit Agreement with the lenders from time to time party thereto, Chase, as Administrative Agent, and the other parties thereto. On April 17, 2013, the Borrowers and Guarantors entered into various amendments to the Amended and Restated Credit Agreement. Each of the Credit Agreement and Amended and Restated Credit Agreement, as amended, is described in more detail above under the caption Liquidity and Capital Resources in the MD&A. Our primary market risks are related to fluctuations in interest rates related to borrowings under our current credit facilities.

As of March 25, 2016, we had an aggregate $93.2 million of indebtedness outstanding under the Revolving Credit Facility and Term Loan Facility and $3.4 million outstanding under a software financing agreement that bore interest at variable rates. A 100 basis point increase in market interest rates would decrease our after tax earnings by approximately $564 per annum, holding other variables constant.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this Form 10-Q. The evaluation included certain internal control areas in which we have made and are continuing to make changes to improve and enhance controls. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the end of the period covered by this Form 10-Q to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal period that may have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As of March 25, 2016, the Company has transitioned four of the six divisions of Del Monte from the legacy Del Monte ERP system to the Company’s protein group ERP system. The Company plans to complete the Del Monte system transition during fiscal 2016.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in legal proceedings, claims and litigation arising out of the ordinary conduct of our business. Although we cannot assure the outcome, management presently believes that the result of such legal proceedings, either individually or in the aggregate, will not have a material adverse effect on our consolidated financial statements, and no material amounts have been accrued in our consolidated financial statements with respect to these matters.

ITEM 1A. RISK FACTORS

There has been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K filed with the SEC on March 4, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

	Total Number of Shares Repurchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
December 26, 2015 to January 22, 2016	6,149	$ 13.98	—	—
January 23, 2016 to February 19, 2016	2,076	$ 13.16	—	—
February 20, 2016 to March 25, 2016	9,253	$ 19.84	—	—
Total	17,478	$ 16.98	—	—

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(1) During the thirteen weeks ended March 25, 2016, we withheld 17,478 shares to satisfy tax withholding requirements upon the vesting of restricted shares of our common stock awarded to our officers and key employees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. MINE SAFETY DISCLOSURES
None.

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Bylaws of the Company, dated as of May 3, 2016
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on May 4, 2016.

THE CHEFS' WAREHOUSE, INC.
(Registrant)

May 4, 2016 /s/ John D. Austin
Date **John D. Austin**
Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)