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

Form 10-Q

(Mark one)

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

For the quarterly period ended March 26, 2017

o **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: 001-36626

Smart & Final Stores, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	**80-0862253** (I.R.S. Employer Identification No.)
600 Citadel Drive **Commerce, California** (Address of principal executive offices)	**90040** (Zip Code)

Registrant's telephone number, including area code: **(323) 869-7500**

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

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

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
Emerging growth company o	

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 o No x

Indicate the number of shares outstanding of each of the issuer's classes of common units, as of the latest practicable date.

Class	Outstanding at May 3, 2017
common stock, $0.001 par value	73,211,905

[Table of Contents](#)

TABLE OF CONTENTS

		PAGE
PART I - FINANCIAL INFORMATION		
Item 1.	**Financial Statements**	
	Condensed Consolidated Balance Sheets as of March 26, 2017 (unaudited) and January 1, 2017	3
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the twelve weeks ended March 26, 2017 and March 27, 2016 (unaudited)	4
	Condensed Consolidated Statements of Cash Flows for the twelve weeks ended March 26, 2017 and March 27, 2016 (unaudited)	5
	Condensed Consolidated Statement of Stockholders' Equity for the twelve weeks ended March 26, 2017 (unaudited)	6
	Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2.	**Management's Discussion and Analysis of Financial Condition and Results of Operations**	27
	Forward-Looking Statements	27
Item 3.	**Quantitative and Qualitative Disclosures About Market Risk**	40
Item 4.	**Controls and Procedures**	40
PART II - OTHER INFORMATION		
Item 1.	**Legal Proceedings**	41
Item 1A.	**Risk Factors**	41
Item 2.	**Unregistered Sales of Equity Securities and Use of Proceeds**	41
Item 3.	**Defaults Upon Senior Securities**	42
Item 4.	**Mine Safety Disclosures**	42
Item 5.	**Other Information**	42
Item 6.	**Exhibits**	42
Signatures		43

[Table of Contents](#)

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Smart & Final Stores, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets
(In Thousands, Except Share and Per Share Amounts)

	March 26, 2017 (Unaudited)	January 1, 2017
Assets		

Current assets:		
Cash and cash equivalents	$ 50,385	$ 54,235
Accounts receivable, less allowances of $433 and $434 at March 26, 2017 and January 1, 2017, respectively	27,367	31,809
Inventories	266,698	278,718
Prepaid expenses and other current assets	59,492	48,769
Deferred income taxes	—	22,105
Total current assets	403,942	435,636
Property, plant, and equipment:		
Land	9,082	9,106
Buildings and improvements	17,351	17,351
Leasehold improvements	310,151	301,522
Fixtures and equipment	363,819	353,764
Construction in progress	16,636	12,110
	717,039	693,853
Less accumulated depreciation and amortization	269,108	249,251
	447,931	444,602
Capitalized software, net of accumulated amortization of $14,284 and $13,293 at March 26, 2017 and January 1, 2017, respectively	14,246	10,392
Other intangible assets, net	367,907	369,519
Goodwill	611,242	611,242
Equity investment in joint venture	14,512	14,366
Other assets	68,239	66,662
Total assets	$ 1,928,019	$ 1,952,419
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 216,774	$ 225,227
Accrued salaries and wages	31,446	31,933
Accrued expenses	86,195	82,925
Current portion of debt, less debt issuance costs	68,454	62,352
Total current liabilities	402,869	402,437
Long-term debt, less debt issuance costs	616,902	616,588
Deferred income taxes	108,329	129,902
Postretirement and postemployment benefits	120,157	121,409
Other long-term liabilities	133,791	129,834
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value;		
Authorized shares — 10,000,000		
Issued and outstanding shares — none	—	—
Common stock, $0.001 par value;		
Authorized shares — 340,000,000		
Issued and outstanding shares - 73,155,074 and 72,930,653 at March 26, 2017 and January 1, 2017, respectively	73	73
Additional paid-in capital	502,044	500,666
Retained earnings	57,180	65,093
Accumulated other comprehensive loss	(13,326)	(13,583)
Total stockholders' equity	545,971	552,249
Total liabilities and stockholders' equity	$ 1,928,019	$ 1,952,419

See notes to condensed consolidated financial statements.

Smart & Final Stores, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
(In Thousands, Except Share and Per Share Amounts)

	Twelve Weeks Ended	
	March 26, 2017	March 27, 2016
Net sales	$ 967,017	$ 908,453
Cost of sales, buying and occupancy	833,906	780,102
Gross margin	133,111	128,351
Operating and administrative expenses	135,674	125,082
(Loss) income from operations	(2,563)	3,269
Interest expense, net	8,174	7,311
Equity in earnings of joint venture	167	444
Loss before income taxes	(10,570)	(3,598)
Income tax benefit	5,978	1,960
Net loss	$ (4,592)	$ (1,638)
Basic loss per share	$ (0.06)	$ (0.02)
Diluted loss per share	$ (0.06)	$ (0.02)
Weighted average shares outstanding:		
Basic	72,287,891	73,189,149
Diluted	72,287,891	73,189,149
Comprehensive income:		
Net loss	$ (4,592)	$ (1,638)
Derivative instruments:		
Gain (loss), net of income tax expense (benefit) of $250 and $(548), respectively	377	(822)
Reclassification adjustments, net of income tax (benefit) expense of $(1) and $2, respectively	(2)	4
Foreign currency translation	(118)	13
Other comprehensive income (loss)	257	(805)
Comprehensive loss	$ (4,335)	$ (2,443)

See notes to condensed consolidated financial statements.

Smart & Final Stores, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Twelve Weeks Ended	
	March 26, 2017	March 27, 2016
Operating activities		
Net loss	$ (4,592)	$ (1,638)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	12,783	10,189
Amortization	8,900	7,345
Amortization of debt discount and debt issuance costs	445	639
Share-based compensation	1,814	1,507
Deferred income taxes	284	(446)
Equity in earnings of joint venture	(167)	(444)
Loss on disposal of property, plant, and equipment	21	78
Asset impairment	325	128
Changes in operating assets and liabilities:		
Accounts receivable, net	2,663	2,401
Inventories	12,020	(961)
Prepaid expenses and other assets	(11,524)	(6,218)
Accounts payable	(8,453)	(8,717)
Accrued salaries and wages	(487)	(3,649)
Other accrued liabilities	7,279	12,037
Net cash provided by operating activities	21,311	12,251

Investing activities		
Purchases of property, plant, and equipment	(24,570)	(28,217)
Proceeds from disposal of property, plant, and equipment	1,785	386
Assets acquired in Haggen Transaction	—	(1,801)
Investment in capitalized software	(4,524)	(696)
Other	(55)	(209)
Net cash used in investing activities	(27,364)	(30,537)
Financing activities		
Proceeds from exercise of stock options	2,335	146
Payment of minimum withholding taxes on net share settlement of share-based compensation awards	(106)	(91)
Fees paid in conjunction with debt financing	(31)	(31)
Borrowings on bank line of credit	28,000	25,000
Payments on bank line of credit	(22,000)	—
Stock repurchases	(5,995)	(2,992)
Net cash provided by financing activities	2,203	22,032
Net (decrease) increase in cash and cash equivalents	(3,850)	3,746
Cash and cash equivalents at beginning of period	54,235	59,327
Cash and cash equivalents at end of period	$ 50,385	$ 63,073
Cash paid during the period for:		
Interest	$ 2,340	$ 236
Income taxes	$ —	$ 4
Non-cash investing and financing activities		
Software development costs incurred but not paid	$ 344	$ 79
Construction in progress costs incurred but not paid	$ 11,537	$ 13,660

See notes to condensed consolidated financial statements.

Smart & Final Stores, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)
(In Thousands, Except Share Amounts)

	Common Stock		Additional	Retained	Accumulated	
	Number of Shares	**Amount**	**Paid-In Capital**	**Earnings**	**Other Comprehensive Loss**	**Total**
Balance at January 1, 2017	72,930,653	$ 73	$ 500,666	$ 65,093	$ (13,583)	$ 552,249
Forfeiture of restricted stock awards	(25,462)	—	—	—	—	—
Share-based compensation	—	—	1,814	—	—	1,814
Stock option exercises	672,567	—	2,335	—	—	2,335
Vested restricted stock awards withheld on net share settlement	(8,025)	—	(106)	—	—	(106)
Net loss	—	—	—	(4,592)	—	(4,592)
Stock repurchases	(414,659)	—	(2,665)	(3,321)	—	(5,986)
Other comprehensive income	—	—	—	—	257	257
Balance at March 26, 2017	73,155,074	$ 73	$ 502,044	$ 57,180	$ (13,326)	$ 545,971

See notes to condensed consolidated financial statements.

Smart & Final Stores, Inc. and Subsidiaries

1. Description of Business and Basis of Presentation

Business

Smart & Final Stores, Inc., a Delaware corporation ("SFSI" and, collectively with its wholly owned consolidated subsidiaries, the "Company"), is engaged primarily in the business of selling fresh perishables and everyday grocery items, together with foodservice, packaging and janitorial products. The Company operates non-membership, warehouse-style stores offering products in a range of product sizes.

SFSI was formed in connection with the acquisition of the "Smart & Final" and "Cash & Carry" store businesses through the purchase of all of the outstanding common stock of Smart & Final Holdings Corp., a Delaware corporation (the "Predecessor" or "SFHC"), on November 15, 2012. The principal acquiring entities were affiliates of Ares Management, L.P. ("Ares") and the acquisition is referred to as the "Ares Acquisition."

The Company operates non-membership warehouse-style grocery stores under the "Smart & Final" banner and the "Cash & Carry" banner. As of March 26, 2017, the Company operated 308 stores throughout the Western United States ("U.S.").

The Company owns a 50% joint venture interest in a Mexican domestic corporation, Smart & Final del Noroeste, S.A. de C.V. ("SFDN"), which operated 15 "Smart & Final" format stores in northwestern Mexico as of March 26, 2017.

Secondary Public Offering

On April 24, 2015, certain of the Company's stockholders completed a secondary public offering (the "Secondary Offering") of 10,900,000 shares of common stock, par value $0.001 per share ("Common Stock"). The Company did not sell any shares in the Secondary Offering and did not receive any proceeds from the sales of shares by the selling stockholders. Following the Secondary Offering, affiliates of Ares held approximately 60% of the Company's issued and outstanding shares of Common Stock.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial statements, and Rule 10-01 of Regulation S-X of the Securities Act of 1933, as amended (the "Securities Act"). The unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods indicated. All intercompany accounts and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results for a full fiscal year. The information included in these unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Company's audited consolidated financial statements as of and for the fiscal year ended January 1, 2017 that were included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 17, 2017.

Fiscal Years

The Company's fiscal year is the 52- or 53-week period that ends on the Sunday closest to December 31. Each fiscal year typically consists of twelve-week periods in the first, second and fourth quarters and a sixteen-week period in the third quarter. Fiscal year 2017 is, and fiscal year 2016 was, a 52-week fiscal year.

2. Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. All credit card, debit card and electronic benefits transfer transactions that process in less than seven days are classified as cash equivalents. The carrying amount of cash equivalents is approximately the same as their respective fair values due to the short-term maturity of these instruments.

Table of Contents

Accounts Receivable, Net

Accounts receivable generally represent billings to customers, billings to vendors for earned rebates and allowances, receivables from SFDN, and other items. The receivable from SFDN primarily relates to billings for the shipment of inventory product to SFDN.

The Company evaluates the collectability of accounts receivable and determines the appropriate reserve for doubtful accounts based on analysis of historical trends of write-offs and recoveries on various levels of aged receivables. When the Company becomes aware of the deteriorated collectability of a specific account, additional reserves are made to reduce the net recognized receivable to the amount reasonably expected to be collectible or zero. When the specific account is determined to be uncollectible, the net recognized receivable is written off in its entirety against such reserves.

The Company is exposed to credit risk on trade accounts receivable. The Company provides credit to certain trade customers in the ordinary course of business and performs ongoing credit evaluations. Concentrations of credit risk with respect to trade accounts receivable are limited due to the number of customers comprising the Company's customer base. The Company currently believes the allowance for doubtful accounts is sufficient to cover customer credit risks.

Inventories

Inventories consist of merchandise purchased for resale which is stated at the weighted-average cost (which approximates first-in, first-out ("FIFO")) or market. The Company provides for estimated inventory losses between physical inventory counts at its stores based upon historical inventory losses as a percentage of sales. The provision is adjusted periodically to reflect updated trends of actual physical inventory count results.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets include primarily prepaid rent, insurance, property taxes, income taxes receivable, and other current assets.

Property, Plant, and Equipment

Property, plant, and equipment is stated at cost or estimated fair value based on purchase accounting and depreciated or amortized using the straight-line method. Leased property meeting certain criteria is capitalized and the amortization is based on the straight-line method over the term of the lease.

The estimated useful lives are as follows:

Buildings and improvements	20 - 25 years
Fixtures and equipment	3 - 10 years
Leasehold improvements	Lesser of lease term or useful life of improvement

Costs of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements, remodeling or betterments of properties are capitalized. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is included in the consolidated statements of operations and comprehensive income (loss).

Included in property, plant, and equipment are costs associated with the selection and procurement of real estate sites. These costs are amortized over the remaining lease term of the successful sites with which they are associated.

The Company reviews its long-lived assets, including property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company groups and evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. The Company regularly reviews its stores' operating performance for indicators of impairment. Factors it considers important that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results, a significant change in the manner of the use of the asset or a significant negative industry or economic trend. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent the sum of the estimated discounted future cash flows from the use of the asset is less than the carrying value. The Company measured the fair value of its long-lived assets on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. See Note 6, Fair Value Measurements.

Capitalized Software

Capitalized software costs are comprised of third-party purchased software costs, capitalized costs associated with internally developed software including internal direct labor costs, and installation costs. Such capitalized costs are amortized over the period that the benefits of the software are fully realizable and enhance the operations of the business, ranging from three to seven years, using the straight-line method.

Capitalized software costs, like other long-lived assets, are subject to review for impairment whenever events or changes in circumstances indicate that the carrying amount of the capitalized software may not be recoverable, whether it is in use or under development. Impairment is recognized to the extent the sum of the estimated discounted future cash flows from the use of the capitalized software is less than the carrying value.

Goodwill and Intangible Assets

In connection with the Ares Acquisition, the intangible assets were adjusted and recorded at fair market value in accordance with accounting guidance for business combinations. The recorded fair market value for each of the trade names was determined by estimating the amount of royalty income that could be generated from the trade name if it was licensed to a third-party owner and discounting the resulting cash flows using the weighted-average cost of capital for each respective trade name.

During the fourth quarter of 2015, the Company acquired certain assets, including 33 store leases and related fixtures, equipment and liquor licenses, of Haggen Operations Holdings, LLC and Haggen Opco South, LLC (together, "Haggen"). The Company recorded leasehold interests at fair value as of the acquisition dates. Acquired leasehold interests are finite-lived intangible assets amortized straight-line over their estimated useful benefit period which is typically the lease term.

The finite-lived intangible assets are amortized over their estimated useful benefit period and have the following weighted-average amortization periods:

Signature brands	20 years
Leasehold interests	24 years

Goodwill and intangible assets with indefinite lives are evaluated on an annual basis for impairment during the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company evaluates goodwill for impairment by comparing the fair value of each reporting unit to its carrying value including the associated goodwill. The Company has designated its reporting units to be its Smart & Final stores and Cash & Carry stores. The Company determines the fair value of the reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies. If the fair value of the reporting unit exceeds the carrying value of the net assets, including goodwill assigned to that unit, goodwill is not impaired. If the carrying value of the reporting unit's net assets, including goodwill, exceeds the fair value of the reporting unit, then the Company determines the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied value, then an impairment of goodwill has occurred and the Company would recognize an impairment charge for the difference between the carrying amount and the implied fair value of goodwill.

The Company evaluates its indefinite-lived intangible assets associated with trade names by comparing the fair value of each trade name with its carrying value. The Company determines the fair value of the indefinite-lived trade names using a "relief from royalty payments" methodology. This methodology involves estimating reasonable royalty rates for each trade name and applying these royalty rates to a revenue stream and discounting the resulting cash flows to determine fair value.

Finite-lived intangible assets, like other long-lived assets are subject to review for impairment whenever events or changes in circumstances indicate that the carrying amount of the finite-lived intangible asset may not be recoverable. Impairment is recognized to the extent the sum of the discounted estimated future cash flows from the use of the finite-lived intangible asset is less than the carrying value.

Asset Acquisition

An acquired group of assets that do not meet the definition of a business are accounted for as an asset acquisition. Asset acquisitions are accounted for using a cost accumulation approach, whereby the total consideration paid is allocated to the individual assets acquired and liabilities assumed on a relative fair value basis. See Note 14, Haggen Transaction.

These estimates of fair values, the allocation of the purchase price and other factors are subject to significant judgments and the use of estimates. The inputs used in the fair value analysis fall within Level 3 of the fair value hierarchy due to the use of significant unobservable inputs to determine fair value. See Note 6, Fair Value Measurements.

Other Assets

Other assets primarily consist of assets held in trusts for certain retirement plans (see Note 7, Retirement Benefit Plans and Postretirement and Postemployment Benefit Obligations), insurance recovery receivables related to self-insurance, liquor licenses and other miscellaneous assets.

Accounts Payable

The Company's banking arrangements provide for the daily replenishment and limited monthly advanced payments of vendor payable accounts as checks are presented or payments are demanded. The checks and the advanced payments outstanding in these bank accounts are included in "Accounts payable" in the accompanying condensed consolidated balance sheets.

Other Long-Term Liabilities

Other long-term liabilities include primarily general liabilities, workers' compensation liabilities, liabilities for the deferred compensation plan, leasehold interests and other miscellaneous long-term liabilities. These leasehold interests are amortized over their estimated useful benefit periods, which is typically the lease term. The weighted-average amortization period is 14 years.

Lease Accounting

Certain of the Company's operating leases provide for minimum annual payments that increase over the life of the lease. The aggregate minimum annual payments are charged to expense on a straight-line basis beginning when the Company takes possession of the property and extending over the term of the related lease. The amount by which straight-line rent expense exceeds actual lease payment requirements in the early years of the leases is accrued as deferred minimum rent and reduced in later years when the actual cash payment requirements exceed the straight-line expense. Accounting guidance for asset retirement obligations requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Due to the nature of the Company's business, its asset retirement obligation with respect to owned or leased properties is not significant.

Store Opening and Closing Costs

New store opening costs consisting primarily of rent, store payroll and general operating costs are charged to expense as incurred prior to the store opening.

In the event a leased store is closed before the expiration of the associated lease, the discounted remaining lease obligation less estimated sublease rental income, asset impairment charges related to improvements and fixtures, inventory write-downs and other miscellaneous closing costs associated with the disposal activity are recognized when the store closes.

Table of Contents

Share-Based Compensation

All share-based payments are recognized over the requisite service period in the statements of operations and comprehensive income (loss) as compensation expense based on the fair value of an award, taking into consideration estimated forfeiture rates.

The Company measures share-based compensation cost at the grant date based on the fair value of the award and recognizes share-based compensation cost as an expense over the award's vesting period. As share-based compensation expense recognized in the consolidated statements of operations and comprehensive income (loss) of the Company is based on awards ultimately expected to vest, the amount of expense has been reduced for estimated forfeitures. The Company's forfeiture rate assumption used in determining its share-based compensation expense is estimated primarily based upon historical data. The actual forfeiture rate could differ from these estimates.

The Company uses the Black-Scholes-Merton option-pricing model to determine the grant date fair value for each stock option grant. The Black-Scholes-Merton option-pricing model requires extensive use of subjective assumptions. Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation and, consequently, the related amounts recognized in the Company's consolidated statements of operations and comprehensive income (loss). The Company recognizes compensation cost for graded vesting awards as if they were granted in multiple awards. Management believes the use of this "multiple award" method is preferable because a stock option grant with graded vesting is effectively a series of individual grants that vest over various periods and management believes that this method provides for better matching of compensation costs with the associated services rendered throughout the applicable vesting periods. See Note 9, Share-Based Compensation.

Significant Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Such estimates and assumptions could affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues from the sale of products are recognized at the point of sale. Discounts provided to customers at the time of sale are recognized as a reduction in sales as the products are sold. Returns are also recognized as a reduction in sales and are immaterial in relation to total sales. The Company collects sales tax on taxable products purchased by its customers and remits such collections to the appropriate taxing authority in accordance with local laws. Sales tax collections are presented in the consolidated statements of operations and comprehensive income (loss) on a net basis and, accordingly, are excluded from reported revenues.

Proceeds from the sale of the Company's *Smart & Final* gift cards are recorded as a liability at the time of sale, and recognized as sales when they are redeemed by the customer. The *Smart & Final* gift cards do not have an expiration date and the Company is not required to escheat the value of unredeemed gift cards in the applicable jurisdictions. The Company has determined a gift card breakage rate based upon historical redemption patterns. Estimated breakage amounts are accounted for under the redemption recognition method, which results in recognition of estimated breakage income in proportion to actual gift card redemptions.

Cost of Sales, Buying and Occupancy

The major categories of costs included in cost of sales, buying and occupancy are cost of goods, distribution costs, costs of the Company's buying department and store occupancy costs, net of earned vendor rebates and other allowances. Distribution costs consist of all warehouse receiving and inspection costs, warehousing costs, all transportation costs associated with shipping goods from the Company's warehouses to its stores, and other costs of its distribution network. The Company does not exclude any material portion of these costs from cost of sales.

Vendor Rebates and Other Allowances

As a component of the Company's consolidated procurement program, the Company frequently enters into contracts with vendors that provide for payments of rebates or other allowances. These vendor payments are reflected in the carrying value of the inventory when earned or as progress is made toward earning the rebate or allowance and as a component of cost of sales as the inventory is sold. Certain of these vendor contracts provide for rebates and other allowances that are contingent upon the Company meeting specified performance measures such as a cumulative level of purchases over a specified period of time. Such contingent rebates and other allowances are given accounting recognition at the point at which achievement of the specified performance measures are deemed to be probable and reasonably estimable.

Table of Contents

Operating and Administrative Expenses

The major categories of operating and administrative expenses include store direct expenses associated with displaying and selling at the store level, primarily labor and related fringe benefit costs, advertising and marketing costs, overhead costs and corporate office costs. The Company charges to expense the costs of advertising as incurred.

Income Taxes

The Company recognizes deferred tax assets and liabilities based on the liability method, which requires an adjustment to the deferred tax asset or liability to reflect income tax rates currently in effect. When income tax rates increase or decrease, a corresponding adjustment to income tax expense is recorded by applying the rate change to the cumulative temporary differences. The Company also determines whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recognized.

In the second quarter of 2016, the Company adopted Accounting Standards Update ("ASU") No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09").

In the first quarter of 2017, the Company adopted ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes,* prospectively to classify all deferred tax assets and liabilities as noncurrent on the consolidated balance sheet instead of separating deferred taxes into current and noncurrent amounts. The guidance is effective for public entities for annual periods beginning after December 15, 2016. As a result of the prospective adoption, prior periods were not retrospectively adjusted.

Foreign Currency Translations

The Company's joint venture in Mexico uses the Mexican Peso as its functional currency. The joint venture's assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the balance sheet dates. Revenue and expense accounts are translated into U.S. dollars at average exchange rates during the year. Foreign exchange translation adjustments are included in "Accumulated other comprehensive loss," which is reflected as a separate component of stockholders' equity, in the accompanying condensed consolidated balance sheets.

Derivative Financial Instruments

The Company uses interest rate swaps to manage its exposure to adverse fluctuations in interest rates. The contracts are accounted for in accordance with accounting guidance for derivatives and hedging, which requires every derivative instrument to be recorded in the Company's consolidated balance sheets as either an asset or liability measured at its fair value. The Company designates its interest rate swaps as cash flow hedges and formally documents its hedge relationships, including identification of the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. Accordingly, changes in estimated fair value related to the interest rate swaps are recognized in "Accumulated other comprehensive loss" in the condensed consolidated statements of stockholders' equity and recognized in the condensed consolidated statements of operations and comprehensive income (loss) when the hedged items affect earnings. See Note 5, Derivative Financial Instruments.

Debt Discount and Debt Issuance Costs

Costs incurred in connection with the placement of long-term debt paid directly to the Company's lenders are treated as a debt discount. Costs incurred in connection with the placement of long-term debt paid to third parties are treated as debt issuance costs and are amortized to interest expense over the term of the related debt using the effective interest method.

The Company presents capitalized debt issuance costs in its condensed consolidated balance sheets as a direct reduction to debt.

Self-Insurance

The Company has various insurance programs related to its risks and costs associated with workers' compensation and general liability claims. The Company has elected to purchase third-party insurance to cover the risk in excess of certain dollar limits established for each respective program. The Company establishes estimated accruals for its insurance programs based on available claims data, historical trends and experience, and projected ultimate costs of the claims. These accruals are based on estimates prepared with the assistance of outside actuaries and consultants, and the ultimate cost of these claims may vary from initial estimates and established accruals. The actuaries periodically update their estimates and the Company records such adjustments in the period in which such determination is made. Included in the aggregate accrual are amounts related to the risk in excess of certain dollar limits related to the Company's workers' compensation California self-insured program and its general liability program. The Company has also recorded a corresponding insurance recovery receivable from its third-party insurance carriers related to the risk in excess of certain dollar limits related to its workers' compensation California self-insured program and its general liability program. The accrued obligation for these self-insurance programs and the corresponding insurance recovery receivable are included in "Other long-term liabilities" and "Other Assets," respectively, in the condensed consolidated balance sheets.

Fair Value of Financial Instruments

The Company's financial instruments recorded in the condensed consolidated balance sheets include cash and cash equivalents, accounts receivable, derivatives, investments in affiliates, accounts payable, accrued expenses and long-term variable rate debt. The carrying amounts of cash and cash equivalents, accounts receivable, derivatives, equity investment in joint venture, accounts payable and accrued expenses approximate fair value.

The Company's debt is not listed or traded on an established market. For the purpose of determining the fair value of the Company's first lien term loan facility (as amended, the "Term Loan Facility"), the administrative agent has provided to the Company the fair value of the Term Loan Facility based upon orderly trading activity and related closing prices for actual trades of the Term Loan Facility as well as indications of interest by prospective buyers and sellers and related bid/ask prices. As of March 26, 2017, the carrying value of the Term Loan Facility approximates fair value based upon valuations received from the administrative agent, which reflected a pricing valuation of 99.0% of carrying value. The carrying valuation of the Company's Term Loan Facility was $625.0 million, compared to an indicated fair value of $618.8 million as of March 26, 2017. The Company's estimates of the fair value of long-term debt were classified as Level 2 in the fair value hierarchy.

The Company's condensed consolidated financial statements reflect its investment in Sprouts Farmers Market, Inc. ("Sprouts") through the Company's supplemental deferred compensation plan. The investment is presented at fair market value.

Accounting for Retirement Benefit Plans

The Company recognizes the overfunded or underfunded status of a defined benefit plan, measured as the difference between the fair value of plan assets and the plan's benefit obligation, as an asset or liability in its consolidated balance sheets and recognizes changes to that funded status in the year in which the changes occur through accumulated other comprehensive income (loss). Measurement of the funded status of a plan is required as of the Company's consolidated balance sheet dates.

Earnings (Loss) per Share

Basic loss per share is calculated by dividing net loss by the weighted average number of shares outstanding during the fiscal period.

Diluted loss per share is calculated by dividing net loss by the weighted average number of shares outstanding during the fiscal period.

3. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires expanded disclosures about revenue recognition. In adopting ASU 2014-09, entities may use either a full retrospective or a modified retrospective approach. ASU 2014-09 was to be effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 for all entities by one year. During 2016, the FASB issued additional clarification guidance on the new revenue recognition standard which also included certain scope improvements and practical expedients. Because the standard will impact various business processes, systems and controls of the Company, a project team has been formed to evaluate and guide the implementation. To date, the Company has performed a preliminary detailed review of key contracts and comparison of historical accounting policies and practices to the new standard including principal versus agent considerations as amended through ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* ("ASU 2016-08"). The Company's operations are primarily the sale of fresh perishables and everyday grocery items, as well as foodservice, packaging and janitorial products. Revenues from product sales are recognized at the point of sale. The Company is continuing to evaluate the impact ASU 2014-09, ASU 2016-08 and other amendments and related interpretive guidance will have on our consolidated financial statements. The Company currently anticipates utilizing the modified retrospective method of adoption allowed by the standards and plans to adopt the standards as of January 1, 2018.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). The amendments in ASU 2016-01 require an entity to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value with changes in fair value recognized in net income. The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated by the amendments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2016-01 will have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 will require organizations that lease assets, referred to as "lessees", to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a financing or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require both types of leases to be recognized on the balance sheet. As a result, lessees will be required to put most leases on their balance sheets while recognizing expense on their income statements in a manner similar to current accounting. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-02 also may require additional disclosures, including qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

On March 9, 2016, the FASB issued ASU No. 2016-04, *Liabilities — Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products* ("ASU 2016-04"). ASU 2016-04 requires issuers of prepaid stored-value products redeemable for goods, services or cash at third-party merchants to derecognize liabilities related to those products for breakage, or the value of prepaid stored-value products that is not redeemed by consumers for goods, services or cash. An entity that expects to be entitled to a breakage amount for a liability resulting from the sale of a prepaid stored-value product within the scope of ASU 2016-04 is required to derecognize the liability related to expected breakage in proportion to the pattern of rights expected to be exercised by the consumer only if it is probable that a significant reversal of the recognized breakage amount will not occur. If an entity does not expect to be entitled to a breakage amount, it is required to derecognize the related liability when the likelihood of a consumer exercising its remaining rights becomes remote. Entities will apply the guidance using either a modified retrospective approach with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption or a full retrospective approach. The guidance is for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-04 will have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the incurred loss impairment methodology under current GAAP. The new guidance requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. It is effective for annual reporting periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption for annual reporting periods beginning after December 15, 2018 is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

Table of Contents

In August 2016, the FASB issued ASU 2016-15*, Statement of Cash Flows (Topic 230): Classification of Certain Cash*

Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice of how certain transactions are classified in the statement of cash flows. ASU 2016-15 addresses the classification of various transactions, including, among other things, debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, distributions received from equity method investments, and beneficial interests in securitization transactions. ASU 2016-15 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 will have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). ASU 2016-16 is intended to simplify the accounting for income taxes related to intra-entity asset transfers. It allows an entity to recognize the tax expense from the sale of an asset in the seller's tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. ASU 2016-16 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted only in the first quarter of 2017. The Company is currently evaluating this guidance and the impact it will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2016-18"). ASU 2016-18 provides specific guidance on the classification and presentation of changes in restricted cash on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The adoption of this guidance requires a retrospective transition method to each period presented. The Company does not expect the adoption of ASU 2016-18 will have a material impact on the Company's consolidated financial statements.

In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* ("ASU 2016-20"). ASU 2016-20 addresses various technical corrections and improvements to Topic 606 and other Topics amended by ASU 2014-09. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. This guidance must be applied prospectively to transactions occurring within the period of adoption. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* ("ASU 2017-01"). ASU 2017-01 narrows the definition of a "business". This standard provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. This guidance must be applied prospectively to transactions occurring within the period of adoption. The Company does not expect the adoption of ASU 2017-01 will have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04*, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. This guidance must be applied on a prospective basis. The Company does not expect the adoption of ASU 2017-04 will have a material impact on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU 2017-05"). The amendments clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an "in substance nonfinancial asset". The amendments also define the term "in substance nonfinancial asset". The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred to a counterparty. For example, a parent may transfer control of nonfinancial assets in a legal entity by transferring ownership interests in a consolidated subsidiary. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The guidance is effective for public entities for annual periods beginning after December 15, 2017 and interim periods therein. Entities may use either a full or modified approach to adopt the ASU. The Company does not expect the adoption of ASU 2017-05 will have a material impact on the Company's consolidated financial statements.

Table of Contents

In March 2017, the FASB issued ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07"). ASU 2017-07 requires the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and other components of the net periodic benefit cost be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. For public entities, the amendments in ASU 2017-07 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company does not expect the adoption of ASU 2017-07 will have a material impact on the Company's consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08"). These amendments shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The guidance is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not expect the adoption of ASU 2017-08 will have a material impact on the Company's consolidated financial statements.

4. Debt

Current portion of debt at March 26, 2017 and January 1, 2017 was as follows (in thousands):

	March 26, 2017	January 1, 2017
Revolving Credit Facility	$ 70,000	$ 64,000
Less:		
Debt issuance costs	(1,546)	(1,648)
Total current portion of debt	$ 68,454	$ 62,352

Long-term debt at March 26, 2017 and January 1, 2017 was as follows (in thousands):

	March 26, 2017	January 1, 2017
Term Loan Facility	$ 625,000	$ 625,000
Less:		
Debt issuance costs	(2,596)	(2,709)
Discount on debt issuance	(5,502)	(5,703)
Total long-term debt	$ 616,902	$ 616,588

In conjunction with the Ares Acquisition, Smart & Final Stores LLC ("Smart & Final Stores") entered into three financing arrangements effective November 15, 2012, including two term loan agreements: the Term Loan Facility and a second lien term loan facility (the "Second Lien Term Loan Facility") and an asset-based lending facility (the "Revolving Credit Facility").

The Term Loan Facility originally had a term of seven years and originally provided financing of up to a maximum of $525.0 million in term loans. At November 15, 2012, the Term Loan Facility was drawn to provide $525.0 million in gross proceeds as a part of the funding for the Ares Acquisition.

All obligations under the Term Loan Facility are secured by (1) a first-priority security interest in substantially all of the property and assets of, as well as the equity interests owned by, Smart & Final Stores and SF CC Intermediate Holdings, Inc., a direct wholly owned subsidiary of SFSI ("Intermediate Holdings"), and the other guarantors, with certain exceptions, and (2) a second-priority security interest in the Revolving Credit Facility collateral. The Term Loan Facility contains covenants that would restrict the Company's ability to pay cash dividends.

Table of Contents

The Second Lien Term Loan Facility had a term of eight years and provided $195.0 million in gross proceeds at November 15, 2012. In the second and fourth quarters of 2013, the Company amended its Term Loan Facility to increase borrowings by an aggregate $195.0 million. On December 19, 2013, the Company used these proceeds to repay the outstanding amount of $195.0 million on the Second Lien Term Loan Facility.

On September 29, 2014, the Company used the net proceeds from its initial public offering (the "IPO") to repay borrowings of approximately $115.5 million under the Term Loan Facility. Quarterly amortization of the principal amount is no longer required as a result of this prepayment.

During the second quarter of 2015, the Company amended the Term Loan Facility to reduce (i) the ABR Borrowings applicable margin from 2.75% to 2.25%, (ii) the Eurocurrency Borrowings applicable margin from 3.75% to 3.25% and (iii) the Adjusted LIBOR floor rate from 1.00% to 0.75% (the "Third Amendment"). The November 15, 2019 maturity date remained unchanged.

During the third quarter of 2016, the Company amended the Term Loan Facility (the "Fourth Amendment") to increase the size of the Term Loan Facility by $30.1 million, from $594.9 million to $625.0 million, and to extend the original November 15, 2019 maturity date to November 15, 2022. Additionally, in connection with the Fourth Amendment, the Eurocurrency Borrowings applicable margin increased from 3.25% to 3.50%. As of March 26, 2017 and January 1, 2017, the weighted-average interest rate on the amount outstanding under the Term Loan Facility was 4.59% and 4.41%, respectively.

The Revolving Credit Facility originally provided financing of up to $150.0 million (including up to $50.0 million for the issuance of letters of credit) subject to a borrowing base, for a term of five years. The borrowing base is a formula based on certain eligible inventory and receivables, minus certain reserves.

All obligations under the Revolving Credit Facility are secured by (1) a first-priority security interest in the accounts receivable, inventory, cash and cash equivalents, and related assets of Smart & Final Stores and Intermediate Holdings and the other guarantors under the facility, and (2) a second-priority security interest in substantially all of the other property and assets of, as well as the equity interests owned by, Smart & Final Stores and Intermediate Holdings and the other guarantors under the facility.

During the third quarter of 2016, the Company amended the Revolving Credit Facility (the "Second Amendment") to increase the committed amount to $200.0 million. Additionally, the maturity date was extended from November 15, 2017 to the earlier of (a) July 19, 2021 and (b) to the extent the Term Loan Facility (and any refinancing of the Term Loan Facility) has not been paid in full, the date that is 60 days prior to the earliest scheduled maturity date of the Term Loan Facility (or such refinancing of the Term Loan Facility). In addition, the applicable margin ranges were reduced with respect to (i) alternate base rate loans to 0.25% to 0.50% from 0.25% to 0.75% and (ii) LIBOR rate loans to 1.25% to 1.50% from 1.25% to 1.75%.

At March 26, 2017 and January 1, 2017, the alternate base rate was 4.00% and 3.75%, respectively and the applicable margin for alternate base rate loans was 0.25%, for a total rate of 4.25% and 4.00%, respectively. The calculated borrowing base of the Revolving Credit Facility was $187.4 million and $196.9 million at March 26, 2017 and January 1, 2017, respectively. As of March 26, 2017 and January 1, 2017, the amount outstanding under the Revolving Credit Facility was $70.0 million and $64.0 million, respectively.

The Revolving Credit Facility also provides for a $65.0 million sub-limit for letters of credit, of which the Company had $29.7 million and $29.9 million outstanding as of March 26, 2017 and January 1, 2017, respectively. As of March 26, 2017 and January 1, 2017, the amount available for borrowing under the Revolving Credit Facility was $87.8 million and $103.0 million, respectively. The Revolving Credit Facility does not include financial covenant requirements unless a defined covenant trigger event has occurred and is continuing. As of March 26, 2017 and January 1, 2017, no trigger event had occurred.

5. Derivative Financial Instruments

On April 15, 2013, the Company entered into a five-year interest rate swap agreement (the "Swap") to fix the LIBOR component of interest under the Term Loan Facility at 1.7325% on a variable notional amount starting at $422.7 million and declining to $359.7 million for the period from September 30, 2014 through March 29, 2018. The Swap has been designated as a cash flow hedge against LIBOR interest rate movements and formally assessed, both at inception and at least quarterly thereafter, as to whether it was effective in offsetting changes in cash flows of the hedged item. The portion of the change in fair value attributable to hedge ineffectiveness was recorded in "Interest expense, net" in the condensed consolidated statements of operations and comprehensive income (loss). The portion of the change in fair value attributable to hedge effectiveness, net of income tax effects, was recorded to "Accumulated other comprehensive loss" in the condensed consolidated statements of stockholders' equity.

On May 30, 2013, the Company entered into an amendment to the Swap to change the fixed LIBOR component to 1.5995% and the floor rate to 1.00%. On May 12, 2015, the Company entered into a second amendment to the Swap to change the fixed LIBOR component to 1.47675% and the floor rate to 0.75% on a variable notional amount starting at $410.9 million for the period from June 30, 2015 through March 29, 2018.

As of March 26, 2017 and January 1, 2017, the fair value carrying amount of the Company's interest rate swaps are recorded as follows (in thousands):

	March 26, 2017	January 1, 2017
Other assets	$ 80	$ 83
Accrued expenses	(513)	(1,144)
Total derivatives designated as hedging instruments	$ (433)	$ (1,061)

The following table summarizes the gain recognized in accumulated other comprehensive loss ("AOCL") and the amount of gain reclassified from AOCL into earnings for the twelve weeks ended March 26, 2017 (in thousands):

	Amount of Gain Recognized in OCI on Derivative, Net of Tax	Amount of Gain Recognized in Earnings on Derivative, Net of Tax

	(Effective Portion)	(Ineffective Portion)
Interest rate swaps	$ 375	$ (2)

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To estimate the fair values of its financial and nonfinancial assets and liabilities, the Company uses valuation approaches within a hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The fair value hierarchy is divided into three levels based on the source of inputs as follows:

Level 1—Quoted prices for identical instruments in active markets

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

Table of Contents

The Company's assets and liabilities measured at fair value on a recurring basis are summarized in the following table by the type of inputs applicable to the fair value measurements (in thousands):

	Fair Value Measurement at March 26, 2017			
Description	Total as of March 26, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Other assets—cash and cash equivalents that fund supplemental executive retirement plan and deferred compensation plan	$ 3,195	$ 3,195	$ —	$ —
Other assets—assets that fund supplemental executive retirement plan	3,358	3,358	—	—
Other assets—deferred compensation plan investment in Sprouts	2,371	2,371	—	—
Financial liabilities				
Derivatives	(433)	—	(433)	—
Other long-term liabilities—deferred compensation plan	(18,096)	(1,860)	(16,236)	—
Total	$ (9,605)	$ 7,064	$ (16,669)	$ —

Level 1 Investments include money market funds of $3.2 million, market index funds of $3.4 million and an investment in Sprouts of $2.4 million with the corresponding deferred compensation liabilities of $1.9 million. The fair values of these investments are based on quoted market prices in an active market.

Level 2 Liabilities include $16.2 million of deferred compensation liabilities, the fair value of which is based on quoted prices of similar assets traded in active markets, and $0.4 million of derivatives, which are interest rate hedges. The fair values of the derivatives are determined based primarily on a third-party pricing model that applies observable credit spreads to each exposure to calculate a credit risk adjustment and the inputs are changed only when corroborated by observable market data.

	Fair Value Measurement at January 1, 2017			
Description	Total as of January 1, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Other assets—cash and cash equivalents that fund supplemental executive retirement plan and deferred compensation plan	$ 3,192	$ 3,192	$ —	$ —

Other assets—assets that fund supplemental executive retirement plan	3,303	3,303	—	—
Other assets—deferred compensation plan investment in Sprouts	2,413	2,413	—	—
Financial liabilities				
Derivatives	(1,061)	—	(1,061)	—
Other long-term liabilities—deferred compensation plan	(17,723)	(1,915)	(15,808)	—
Total	$ (9,876)	$ 6,993	$ (16,869)	$ —

Level 1 Investments include money market funds of $3.2 million, market index funds of $3.3 million and an investment in Sprouts of $2.4 million with the corresponding deferred compensation liabilities of $1.9 million. The fair values of these investments are based on quoted market prices in an active market.

Level 2 Liabilities include $15.8 million of deferred compensation liabilities, the fair value of which is based on quoted prices of similar assets traded in active markets, and $1.1 million of derivatives, which are interest rate hedges. The fair values of the derivatives are determined based primarily on a third-party pricing model that applies observable credit spreads to each exposure to calculate a credit risk adjustment and the inputs are changed only when corroborated by observable market data.

Certain assets are measured at fair value on a nonrecurring basis, which means the assets are not measured at fair value on an ongoing basis but, rather, are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). See Note 2, Significant Accounting Policies — Property, Plant and Equipment, Capitalized Software and Goodwill and Intangible Assets. The fair value measurements were determined using available market capitalization rates and public comparable store sales data at the measurement dates. The Company classifies the measurements as Level 3.

Table of Contents

7. Retirement Benefit Plans and Postretirement and Postemployment Benefit Obligations

Defined Benefit Retirement Plan

The Company has a funded noncontributory qualified defined benefit retirement plan (the “Single-Employer Plan”) that, prior to June 1, 2008, covered substantially all full-time employees following a vesting period of five years of service (the “Pension Participants”) and provided defined benefits based on years of service and final average salary. The Predecessor froze the accruing of future benefits for the Pension Participants (the “Frozen Pension Participants”) effective June 1, 2008, with the exception of approximately 450 hourly paid employees in the Company’s distribution and transportation operations who remain eligible for pension benefits under the prior terms. No new employees are eligible for participation in the Single-Employer Plan after June 1, 2008, with the exception of new hires in the Company’s eligible distribution and transportation operations. Frozen Pension Participants will continue to accrue service for vesting purposes only and future payments from the Single-Employer Plan will be in accordance with the Single-Employer Plan’s retirement payment provisions. The Company funds the Single-Employer Plan with annual contributions as required by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). The Company uses a measurement date of December 31 for the Single-Employer Plan.

The components included in the net periodic benefit cost for the periods indicated are as follows (in thousands):

	Twelve Weeks Ended	
	March 26, 2017	March 27, 2016
Service cost	$ 381	$ 324
Interest cost	1,865	2,050
Expected return on plan assets	(1,965)	(2,028)
Amortization of net actuarial loss	120	—
Net periodic benefit cost	$ 401	$ 346

During the twelve weeks ended March 26, 2017, the Company made a $3.5 million contribution to the Single-Employer Plan. The Company expects to fund a minimum required contribution of $11.7 million during fiscal year 2017.

Supplemental Executive Retirement Plan

The Company maintains a noncontributory, nonqualified defined benefit supplemental executive retirement plan (the “SERP”), which provides supplemental income payments for certain current and former corporate officers in retirement. No new participants are eligible for participation and service and compensation accruals were frozen effective June 1, 2008. Accordingly, the retirement benefit for SERP participants who remained employed by the Company was frozen, and future service or compensation increases will not adjust the SERP benefit amount.

To provide partial funding for the SERP, the Company invests in corporate-owned life insurance policies. The Company uses a measurement date of December 31 for the SERP.

The components included in the net periodic benefit cost for the periods indicated are as follows (in thousands):

	Twelve Weeks Ended March 26, 2017	Twelve Weeks Ended March 27, 2016
Interest cost	$ 252	$ 267
Net periodic benefit cost	$ 252	$ 267

Postretirement and Postemployment Benefit Obligations

The Company provides health care benefits for certain retired employees. Prior to June 1, 2008, substantially all full-time employees could become eligible for such benefits if they reached retirement age while still working for the Company. The Company froze the accruing of benefits for eligible participants effective June 1, 2008. Participants who were eligible for a retiree medical benefit and retired prior to June 1, 2009 continued to be eligible for retiree medical coverage. The Company retains the right to make further amendments to the benefit formula and eligibility requirements. This postretirement health care plan is contributory with participants' contributions adjusted annually. The plan limits benefits to the lesser of the actual cost for the medical coverage selected or a defined dollar benefit based on years of service, applicable to eligible retirees. The Company uses a measurement date of December 31 for this health care plan.

The components included in the postretirement benefit cost for the periods indicated are as follows (in thousands):

	Twelve Weeks Ended March 26, 2017	Twelve Weeks Ended March 27, 2016
Service cost	$ 115	$ 92
Interest cost	139	162
Net periodic benefit cost	$ 254	$ 254

8. Income Taxes

The Company's effective tax benefit rate for the twelve weeks ended March 26, 2017 and March 27, 2016 was 56.6% and 54.5%, respectively. The difference in the Company's effective tax rate for the twelve weeks ended March 26, 2017 compared to the twelve weeks ended March 27, 2016 was primarily related to excess tax benefits from stock award exercises and vesting.

SFSI, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and Mexico. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2011. The tax years which remain subject to examination or are being examined by major tax jurisdictions as of March 26, 2017 include fiscal years 2012 through 2016 for both state and federal purposes.

9. Share-Based Compensation

2014 Incentive Plan

Effective September 23, 2014, and in connection with the IPO, SFSI adopted the Smart & Final Stores, Inc. 2014 Stock Incentive Plan (the "2014 Incentive Plan"), which provides for the issuance of equity-based incentive awards not to exceed 5,500,000 shares of Common Stock to eligible employees, consultants and non-employee directors in the form of stock options, restricted stock, other stock-based awards and performance-based cash awards. In addition, a number of shares of Common Stock equal to the number of shares of Common Stock underlying stock options that were previously issued under the 2012 Incentive Plan (as defined below) and that expire, terminate or are cancelled for any reason without being exercised in full will be available for issuance under the 2014 Incentive Plan.

During the twelve weeks ended March 26, 2017, 8,025 shares of restricted stock were surrendered to the Company to cover the grantee's minimum income tax obligations in connection with the vesting of restricted stock awards.

The following table summarizes the restricted stock award activity under the 2014 Incentive Plan for the twelve weeks ended March 26, 2017:

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2017	825,927	$ 12.92
Granted	—	—
Forfeited	(25,462)	13.78

Vested	(22,262)		13.74
Outstanding at March 26, 2017	778,203	$	12.87

The Company recorded share-based compensation expense related to the restricted stock awards of $1.0 million and $0.5 million for the twelve weeks ended March 26, 2017 and March 27, 2016, respectively. As of March 26, 2017, the unrecognized compensation cost was $3.6 million and related weighted-average period over which restricted stock award expense was expected to be recognized was approximately 1.50 years.

Table of Contents

The following table summarizes the Time-Based Option activity under the 2014 Incentive Plan for the twelve weeks ended March 26, 2017 (dollars in thousands except weighted average exercise price):

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at January 1, 2017	2,578,708	$	12.87	8.10 years		
Granted	—		—			
Forfeited	(56,070)		12.73			
Exercised	(15,740)		12.00			
Expired	—		—			
Outstanding at March 26, 2017	2,506,898	$	12.87	7.88 years	$	—
Exercisable at March 26, 2017	581,630	$	12.11	7.53 years	$	—

Aggregate intrinsic value represents the difference between the closing stock price of the Common Stock and the exercise price of outstanding, in-the-money options. The closing stock price as reported on the New York Stock Exchange as of March 24, 2017 was $11.65.

The Company recorded share-based compensation expense for Time-Based Options granted under the 2014 Incentive Plan of $0.6 million and $0.5 million for the twelve weeks ended March 26, 2017 and March 27, 2016, respectively. As of March 26, 2017, the unrecognized compensation cost was $3.5 million and related weighted-average period over which Time-Based Option expense was expected to be recognized was approximately 1.96 years.

2012 Incentive Plan

Effective November 15, 2012, SFSI adopted the SF CC Holdings, Inc. 2012 Stock Incentive Plan (the "2012 Incentive Plan"), which provides for the issuance of equity-based incentive awards not to exceed 11,400,000 shares of Common Stock. Effective upon closing of the IPO, no new awards may be granted under the 2012 Incentive Plan.

The following table summarizes the Time-Based Option activity under the 2012 Incentive Plan for the twelve weeks ended March 26, 2017 (dollars in thousands except weighted average exercise price):

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at January 1, 2017	4,799,586	$	6.58	6.10 years		
Forfeited	(20,216)		6.59			
Exercised	(172,034)		6.59			
Cancelled	—		—			
Expired	—		—			
Outstanding at March 26, 2017	4,607,336	$	6.58	5.87 years	$	23,366
Exercisable at March 26, 2017	3,640,084	$	6.58	5.87 years	$	18,467

Table of Contents

The Company recorded share-based compensation expense for Time-Based Options granted under the 2012 Incentive Plan of $0.2 million and $0.5 million for the twelve weeks ended March 26, 2017 and March 27, 2016, respectively. As of March 26, 2017, the unrecognized compensation cost was $0.6 million and related weighted-average period over which Time-Based Option expense was expected to be recognized was 0.66 years.

In connection with the Ares Acquisition on November 15, 2012, certain stock options to purchase shares of common stock of the Predecessor were converted into 3,625,580 stock options to purchase Common Stock (the "Rollover Options"). In the event of a participant's termination of employment for cause or upon discovery that the participant engaged in detrimental activity, if the Company elected to exercise its repurchase right, it was required to do so within a 180-day period commencing on the later of (i) the date of termination and (ii) the date on which such Rollover Option was exercised. In the event of a participant's termination of employment for any other reason, the repurchase right was required to be exercised by the Company during the 90-day period following the date of termination.

The following table summarizes the Rollover Option activity for the twelve weeks ended March 26, 2017, dollars in thousands except weighted average exercise price:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2017	1,935,253	$ 2.33	1.37 years	
Forfeited	—	—		
Exercised	(484,793)	2.09		
Cancelled	—	—		
Expired	—	—		
Outstanding at March 26, 2017	1,450,460	$ 2.41	1.50 years	$ 13,407
Exercisable at March 26, 2017	1,450,460	$ 2.41	1.50 years	$ 13,407

10. Accumulated Other Comprehensive Loss

The following table represents the changes in AOCL by each component, net of tax, for the twelve weeks ended March 26, 2017 (in thousands):

	Defined Benefit Retirement Plan	Cash Flow Hedging Activity	Foreign Currency Translation and Employee Benefit Obligation Adjustment	Total
Balance at January 1, 2017	$ (10,332)	$ (662)	$ (2,589)	$ (13,583)
OCI before reclassification	—	377	(118)	259
Amounts reclassified out of AOCL	—	(2)	—	(2)
Net current period OCI	—	375	(118)	257
Balance at March 26, 2017	$ (10,332)	$ (287)	$ (2,707)	$ (13,326)

The following table represents the items reclassified out of each component of AOCL and the related tax effects for the twelve weeks ended March 26, 2017 (in thousands):

Details about AOCL Components	Amount Reclassified from AOCL	Location within Statement of Operations and Comprehensive Loss
Loss on cash flow hedges		
Interest rate swaps	$ (3)	Interest income (expense), net
	(3)	Total before income taxes
	1	Income tax (provision) benefit
	$ (2)	Reclassification of adjustments, net of tax
Total reclassifications for the twelve weeks ended March 26, 2017	$ (2)	Total reclassifications, net of tax

Table of Contents

11. Segment Information

The Company is a value-oriented retailer serving a diverse demographic of household and business customers through two complementary store banners. The "Smart & Final" business focuses on both household and business customers, and the "Cash & Carry" business focuses primarily on restaurants, caterers and a wide range of other foodservice businesses. The Company's chief operating decision maker regularly reviews the operating performance of each of the store banners including measures of performance based on income (loss) from operations. The Company considers each of the store banners to be an operating segment and has further concluded that presenting disaggregated information of these two operating segments provides meaningful information as certain economic characteristics are dissimilar as well as the characteristics of the customer base served.

The "Corporate/Other" category is comprised primarily of corporate overhead support expenses and administrative expenses incidental to the activities of the reportable segments, interest expense and other costs associated with the Company's debt obligations, equity earnings in its joint venture, and income taxes.

For the twelve weeks ended March 26, 2017, the operating information and total assets for the reportable segments are as follows (in thousands):

	Smart & Final	Cash & Carry	Corporate / Other	Consolidated
Net sales	$ 764,969	$ 202,048	$ —	$ 967,017
Cost of sales, distribution and store occupancy	656,792	175,133	1,981	833,906
Operating and administrative expenses	103,906	16,166	15,602	135,674
Income (loss) from operations	$ 4,271	$ 10,749	$ (17,583)	$ (2,563)
As of March 26, 2017:				
Total assets	$ 1,860,352	$ 356,941	$ (289,274)	$ 1,928,019
Intercompany receivable (payable)	$ 350,814	$ 7,108	$ (357,922)	$ —
Investment in joint venture	$ —	$ —	$ 14,512	$ 14,512
Goodwill	$ 406,662	$ 204,580	$ —	$ 611,242
For the twelve weeks ended March 26, 2017:				
Capital expenditures	$ 20,974	$ 2,873	$ 5,247	$ 29,094
Depreciation and amortization	$ 18,747	$ 1,095	$ 1,841	$ 21,683

For the twelve weeks ended March 27, 2016, the operating information for the reportable segments is as follows (in thousands):

	Smart & Final	Cash & Carry	Corporate / Other	Consolidated
Net sales	$ 709,314	$ 199,139	$ —	$ 908,453
Cost of sales, distribution and store occupancy	606,682	171,117	2,303	780,102
Operating and administrative expenses	95,200	14,825	15,057	125,082
Income (loss) from operations	$ 7,432	$ 13,197	$ (17,360)	$ 3,269
For the twelve weeks ended March 27, 2016:				
Capital expenditures	$ 26,599	$ 1,062	$ 1,252	$ 28,913
Depreciation and amortization	$ 14,752	$ 856	$ 1,926	$ 17,534

Table of Contents

12. Commitments and Contingencies

Legal Actions

On February 11, 2016, the Company received a subpoena from the District Attorney for the County of Yolo, California, seeking information concerning its handling, disposal and reverse logistics of potential hazardous waste at its stores and distribution centers in California. The Company has provided information and is cooperating with the authorities from multiple counties in California in connection with this ongoing matter. In the fourth quarter of 2016, the Company recorded a loss related to this matter in an amount considered to be immaterial. At this time, the Company cannot reasonably estimate possible additional loss or range of additional loss that may arise from this matter or whether this matter will have a material impact on its financial condition or operating results.

The Company is engaged in various other legal actions, claims and proceedings in the ordinary course of business, including claims related to employment related matters, breach of contracts, products liabilities and intellectual property matters resulting from its business activities. The Company does not believe that the ultimate determination of these actions, claims and proceedings will either individually or in the aggregate have a material adverse effect on its consolidated results of operations or financial position.

13. Loss Per Share

Basic loss per share and diluted loss per share represent net loss for the period shares of Common Stock were outstanding, divided by the weighted average number of shares of Common Stock outstanding for the applicable period.

A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations is as follows (in thousands, except per share amounts):

	Twelve Weeks Ended March 26, 2017	Twelve Weeks Ended March 27, 2016
Net loss	$ (4,592)	$ (1,638)
Weighted average shares outstanding for basic EPS	72,287,891	73,189,149
Effect of dilutive securities:		
Assumed exercise of time-based stock options and vesting of restricted stock	—	—

Weighted average shares and share equivalents outstanding for diluted EPS	72,287,891	73,189,149
Basic loss per share	$ (0.06)	$ (0.02)
Diluted loss per share	$ (0.06)	$ (0.02)

Potentially dilutive securities representing 5,699,439 shares of Common Stock for the twelve weeks ended March 26, 2017 and 4,325,498 shares of Common Stock for the twelve weeks ended March 27, 2016 were excluded from the computation of diluted loss per share because their effect would have been antidilutive.

14. Haggen Transaction

On October 2, 2015, Smart & Final Stores entered into an Asset Purchase Agreement with Haggen whereby Smart & Final Stores agreed to become a "stalking horse bidder" to acquire certain assets, including 28 store leases and related assets, of Haggen. On November 24, 2015 and December 22, 2015, Smart & Final Stores entered into additional Asset Purchase Agreements to acquire five more store leases and related assets of Haggen (all collectively, the "Asset Purchase Agreements" and the transactions, collectively, the "Haggen Transaction"). The initial purchase price for all 33 store leases and related assets was $67.9 million, subject to certain adjustments. The Haggen Transaction closed in December 2015. During the year ended January 1, 2017, the purchase price was increased for additional acquisition-related transaction costs and adjustments of $0.5 million.

Table of Contents

The aggregate consideration paid in the Haggen Transaction was as follows (in thousands):

Aggregate purchase price (excluding adjustments)	$ 67,827
Less closing adjustments	(3,449)
Cash paid pursuant to the Asset Purchase Agreements	64,378
Acquisition related costs	4,035
Total consideration paid	$ 68,413

The cash consideration paid at the closing of the Haggen Transaction was based in part on estimated closing adjustments, including an estimated adjustment (i) related to repairs to roof, building structure and mechanical systems (including HVAC, plumbing and electrical but excluding refrigeration systems) and (ii) reasonably required to bring the properties into compliance with laws applicable to conducting a retail grocery business (the "Property Condition Adjustment"). The Property Condition Adjustment, which resulted in a reduction of $3.4 million to the total cash purchase price, is subject to certain caps and floors per property and is subject to adjustment, in each case as set forth in the applicable Asset Purchase Agreement. Any adjustment to the purchase price resulting from final agreement by the parties will be accounted for as an adjustment to the cost of the assets acquired and allocated based on their initial relative fair values.

Table of Contents

15. Share Repurchase Program

During the third quarter of 2016, SFSI's board of directors authorized a share repurchase program to repurchase up to $25.0 million, inclusive of commissions, of shares of Common Stock. Repurchases under this share repurchase program commenced on September 19, 2016 and may occur through August 31, 2017.

The specific timing and amount of the repurchases will be dependent on market conditions, applicable laws and other factors. In connection with the share repurchase program, the Company may acquire shares in open market transactions (including pursuant to plans adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended) or privately negotiated transactions.

During the twelve weeks ended March 26, 2017, the Company repurchased 414,659 shares of its common stock through open market purchases for an aggregate cost of $6.0 million. The repurchased shares are no longer deemed issued and outstanding.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 1, "Financial Statements" in Part I of this quarterly report on Form 10-Q.

Forward-Looking Statements

The discussion in this quarterly report, including under Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and Item 1A, "Risk Factors" of Part II, contains forward-looking statements within the meaning of federal securities laws. All statements other than statements of historical fact contained in this quarterly report, including statements regarding our future operating results and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as "may," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

The forward-looking statements contained in this quarterly report reflect our views as of the date hereof about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause our actual results, performance or achievements to differ significantly from those expressed or implied in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements in this quarterly report are reasonable, we cannot guarantee future events, results, performance or achievements. A number of important factors could cause actual results to differ materially from those indicated by the forward-looking statements in this quarterly report, including, without limitation, those factors described in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Part I and Item 1A, "Risk Factors" of Part II. Some of the key factors that could cause actual results to differ from our expectations include the following:

- competition in our industry is intense and our failure to compete successfully may adversely affect our sales, financial condition and operating results;

- our continued growth depends on new store openings and our failure to successfully open new stores or successfully manage the potential difficulties associated with store growth could adversely affect our business and stock price;

- our failure to successfully operate store properties acquired from Haggen could adversely affect our business and operating results;

- real or perceived quality or food safety concerns could adversely affect our business, operating results and reputation;

- we may be unable to maintain or increase comparable store sales, which could adversely affect our business and stock price;

- inflation and deflation can impact our net sales, inventory, costs of goods sold and gross margin and operating leverage;

- the current geographic concentration of our stores and our net sales creates an exposure to local or regional downturns or catastrophic occurrences;

- disruption of significant supplier relationships could adversely affect our business;

- any significant interruption in the operations of our distribution centers or common carriers could disrupt our ability to deliver our products in a timely manner;

- our failure to comply with laws, rules and regulations affecting us and our industry could adversely affect our financial condition and operating results;

- disruptions to or security breaches involving our information technology systems could harm our ability to run our business;

- we have significant debt service obligations and may incur additional indebtedness in the future, which could adversely affect our financial condition and operating results and our ability to react to changes to our business; and

- covenants in our debt agreements restrict our operational flexibility.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements in this quarterly report and are cautioned not to place undue reliance on these forward-looking statements. All of the forward-looking statements in this quarterly report are based on information available to us on the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law.

Business Overview

We are a growth and value-oriented food retailer serving a diverse demographic of household and business customers through two complementary and productive store banners. Our Smart & Final stores focus on both household and business customers, and our Cash & Carry stores focus primarily on business customers. As of March 26, 2017, we operated 308 non-membership, warehouse-style stores throughout the Western United States, with an additional 15 stores in Northwestern Mexico in a joint venture. We have a differentiated merchandising strategy that emphasizes high quality perishables, a wide selection of private label products, products tailored to business and foodservice customers and products offered in a broad range of sizes, all at "everyday low prices."

We consider each of our store banners to be an operating segment, and have concluded that presenting disaggregated information for our two operating segments provides meaningful information because of differences in their respective economic characteristics and customer bases. For the twelve weeks ended March 26, 2017, our *Smart & Final* and *Cash & Carry* segments represented approximately 79.1% and 20.9%, respectively, of our consolidated sales compared with 78.1% and 21.9%, respectively, for the twelve weeks ended March 27, 2016.

Our *Smart & Final* segment is based in Commerce, California and includes, as of March 26, 2017, 74 legacy *Smart & Final* stores and 174 *Extra!* format stores, which focus on household and business customers and are located in California, Arizona and Nevada. Our legacy *Smart & Final* stores offer extensive selections of fresh perishables and everyday grocery items, together with a targeted selection of foodservice, packaging and janitorial products, under both national and private label brands. Our *Extra!* store format offers a one-stop shopping experience with a more expansive selection of items than our legacy *Smart & Final* stores and an emphasis on perishables and household items. The continued development of our *Extra!* store format, through additional new store openings and conversions and relocations of legacy *Smart & Final* stores, is the cornerstone of our growth strategy.

Our *Cash & Carry* segment is based in Portland, Oregon and includes, as of March 26, 2017, 60 *Cash & Carry* stores, which focus primarily on business customers and are located in Washington, Oregon, Northern California, Idaho, Nevada and Utah. Our *Cash & Carry* stores offer a wide variety of SKUs tailored to the core needs of foodservice customers such as restaurants, caterers and a wide range of other foodservice businesses in a flexible mix of "case quantity" or single unit purchases.

Outlook

We plan to expand our store footprint, primarily through opening new *Extra!* stores in existing and adjacent markets, and over time by entering new markets. We believe we have a scalable operating infrastructure to support our anticipated growth which, together with our flexible real estate strategy and advanced distribution capabilities, position us to capitalize on our growth opportunities. During the first quarter of 2017 we opened two new *Extra!* stores. Our 2017 store development plans anticipate 13 additional new *Extra!* stores. We plan to opportunistically continue converting our larger legacy *Smart & Final* stores to our *Extra!* format and investing in our legacy *Smart & Final* stores that are not candidates for conversion to the *Extra!* format by completing major remodel projects and targeted relocations. In the first quarter of 2017, we opened one new Cash & Carry store and plan to open three additional new *Cash & Carry* stores in fiscal year 2017.

In addition, we plan to leverage our significant investments in management, information technology systems, infrastructure and marketing to grow our comparable store sales and enhance our operating margins through execution of a number of key initiatives, including initiatives to increase net sales of perishable products in our *Smart & Final* stores, to increase net sales of private label products in our *Smart &Final* and *Cash & Carry* stores, and to expand our marketing programs in our *Smart & Final* and *Cash & Carry* stores. We expect each of these key initiatives, if successful, to generate increased comparable store sales and also expect our initiative to increase net sales of private label products to enhance our operating margins, as private label products have historically generated higher gross margins relative to national branded products.

Factors Affecting Our Results of Operations

Various factors affect our results of operations during each period, including:

Store Openings

We expect that a primary driver of our growth in sales and gross margin will be the continued development of our *Extra!* format stores through new store openings, conversions and relocations. We also plan to opportunistically open new *Cash & Carry* stores, which will further amplify sales and gross margin. Our results of operations have been and will continue to be materially affected by the timing and number of new store openings, including conversions and relocations of legacy *Smart & Final* stores to the *Extra!* format, and the amount of associated costs. For example, we typically incur higher than normal employee costs at the time of a new store opening, conversion or relocation associated with set-up and other related costs. Also, our operating margins are typically negatively affected by promotional discounts and other marketing costs associated with new store openings, conversions and relocations, as well as higher inventory markdowns and costs related to hiring and training new employees in new stores. Additionally, promotional activities may result in higher than normalized sales in the first several weeks following a new store opening. Our new *Extra!* and *Cash & Carry* stores typically build a customer base over time and reach a mature sales growth rate in the third and fourth year after opening, respectively. As a result, our new stores generally have lower margins and higher operating expenses, as a percentage of sales, than our more mature stores.

Based on our experience, we expect that certain of our new *Extra!* stores will impact sales at our existing stores in close proximity in the short-term. However, we believe that over the longer term any such sales impact will be more than offset by future sales growth and expanded market share.

Developments in Competitive Landscape

We operate in the highly competitive food retail and foodservice industries. We compete on a combination of factors, including price, product selection, product quality, convenience, customer service, store format and location. Our principal competitors include conventional grocers such as Albertsons and Kroger, discounters and warehouse clubs such as Costco, mass merchandisers such as Walmart and Target, foodservice delivery companies such as Sysco and US Foods, as well as online retailers and other specialty stores. Each of these companies competes with us on one or more elements of price, product selection, product quality, convenience, customer service, store format and location, or any combination of these factors. Some of our competitors may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting and selling their products. These competitors could use these advantages to take certain measures, including reducing prices that could adversely affect our competitive position, business, financial condition and operating results.

Pricing Strategy and Investments in "Everyday Low Prices"

We have a commitment to "everyday low prices," which we believe positions both our *Smart & Final* and *Cash & Carry* stores as top of mind destinations for our target customers. Pricing in our *Smart & Final* stores is targeted to be substantially lower than that of conventional grocers and competitive with that of large discounters and warehouse clubs, with no membership fee requirement. Pricing in our *Cash & Carry* stores is targeted to be substantially lower than our foodservice delivery competitors, with no membership fee requirement and greater price transparency to customers and no minimum order size, and competitive with typical warehouse clubs.

Our pricing strategy is geared toward optimizing the pricing and promotional activities across our mix of higher-margin perishable items and everyday value-oriented traditional grocery items. This strategy involves determining prices that will improve our operating margins based upon our analysis of how demand varies at different price levels as well as our costs and inventory levels.

Private Label Products

Private label products are key components of our pricing and merchandising strategy, as we believe they build and deepen customer loyalty, enhance our value proposition, generate higher gross margins relative to national brands and improve the breadth and selection of our product offering. We believe that a strong private label offering has become an increasingly important competitive advantage in the food retail and foodservices industries.

As of March 26, 2017, we had a portfolio of 3,070 private label items, which represented 28% of our *Smart & Final* banner sales for the twelve weeks ended March 26, 2017. Typically, our private label products generate a higher gross margin as a percentage of sales as compared to a comparable national brand product.

General Economic Conditions and Changes in Consumer Behavior

The overall economic environment in the markets we serve, particularly California, and related changes in consumer behavior, have a significant impact on our business and results of operations. In general, positive conditions in the broader economy promote customer spending in our stores, while economic weakness results in reduced customer spending. Macroeconomic factors that can affect customer spending patterns, and thereby our results of operations, include employment rates, business conditions, changes in the housing market, the availability of consumer credit, interest rates, tax rates and fuel and energy costs.

Infrastructure Investment

Our historical results of operations reflect the impact of our ongoing investments in infrastructure to support our growth. We have made significant investments in senior management, information technology systems, supply chain systems and marketing. These investments include significant additions to our personnel, including experienced industry executives and management and merchandising teams to support our long-term growth objectives. We plan on continuing to make targeted investments in our infrastructure as necessary to support our growth.

Inflation and Deflation Trends

Inflation and deflation can impact our financial performance. During inflationary periods, our results of operations can be positively impacted as we sell lower-priced inventory in a higher price environment. In contrast, food deflation could negatively impact our results of operations by reducing sales growth and earnings if our competitors react by lowering their retail pricing. The short-term impact of inflation and deflation is largely dependent on whether or not we pass the effects through to our customers, which is subject to competitive market conditions. In recent inflationary periods, we have generally been able to pass through most cost increases. Food inflation rose sharply in the first half of fiscal year 2014, but moderated in the third quarter of fiscal year 2014. Beginning in the second quarter of 2015 and continuing through the end of fiscal year 2016, we experienced deflation in certain food and non-food commodities. Market dynamics have caused us to pass cost decreases through to customers, which has negatively impacted sales growth and income from operations in certain categories, primarily in proteins, but also in high volume categories like cheese and fresh produce. We expect deflationary pressures to continue into the first half of 2017, with deflation easing as we move into the second half of the year.

Components of Results of Operations

Net Sales

We recognize revenue from the sale of products at the point of sale. Discounts provided to customers at the time of sale are recognized as a reduction in sales as the products are sold. Sales tax collections are presented in the statement of operations and comprehensive income (loss) on a net basis and, accordingly, are excluded from reported sales revenues. Proceeds from the sale of our *Smart & Final* gift cards are recorded as a liability at the time of sale, and recognized as sales when they are redeemed by the customer. Our *Smart & Final* gift cards do not have an expiration date.

We regularly review and monitor comparable store sales growth to evaluate and identify trends in our sales performance. With respect to any fiscal period during any year, comparable store sales include sales for stores operating both during such fiscal period in such year and in the same fiscal period of the previous year. Sales from a store will be included in the calculation of comparable store sales after the 60th full week of operations, and sales from a store are also included in the calculation of comparable store sales if (i) the store has been physically relocated, (ii) the selling square footage has been increased or decreased or (iii) the store has been converted to a new format within a store banner (e.g., from a legacy *Smart & Final* store to the *Extra!* format). However, sales from an existing store will not be included in the calculation of comparable store sales if the store has been converted to a different store banner (e.g., from *Smart & Final* to *Cash & Carry*).

Cost of Sales, Buying and Occupancy and Gross Margin

The major categories of costs included in cost of sales, buying and occupancy are cost of goods sold, distribution costs, costs of our buying department and store occupancy costs, net of earned vendor rebates and other allowances. Distribution costs consist of all warehouse receiving and inspection costs, warehousing costs, all transportation costs associated with shipping goods from our warehouses to our stores, and other costs of our distribution network. Store occupancy costs include store rental, common area maintenance, property taxes, property insurance, and depreciation.

Gross margin represents sales less cost of sales, buying and occupancy. Our gross margin may not be comparable to other retailers, since not all retailers include all of the costs related to their distribution network in cost of sales like we do. Some retailers exclude a portion of these costs (e.g., store occupancy and buying department costs) from cost of sales and include them in selling, general and administrative expenses.

Our cost of sales, buying and occupancy expense and gross margin are correlated to sales volumes. As sales increase, gross margin is affected by the relative mix of products sold, pricing strategies, inventory shrinkage and improved leverage of fixed costs.

Operating and Administrative Expenses

Operating and administrative expenses include direct store-level expenses associated with displaying and selling our products at the store level, including salaries and benefits for our store work force, fringe benefits, store supplies, advertising and marketing and other store-specific costs. Operating and administrative expenses also consist of store overhead costs and corporate administrative costs including salaries and benefits costs, share-based compensation, corporate occupancy costs, amortization expense, and other expenses associated with being a public company.

We expect that our operating and administrative expenses will increase in future periods resulting from our store development program, including the growth in the number of our stores and as a result of additional legal, accounting, insurance and other expenses associated with being a public company.

Income Tax Provision

We are subject to federal income tax as well as state income tax in various jurisdictions of the United States in which we conduct business. Income taxes are accounted for under the balance sheet approach.

Equity in Earnings of Mexico Joint Venture

Our wholly owned subsidiary, Smart & Final de Mexico S.A. de C.V., is a Mexican holding company that owns a 50% interest in a joint venture. The remaining 50% of the joint venture is owned by Grupo Calimax S.A. de C.V., an entity comprising the investment interests of a family group who are also the owners of the Calimax grocery store chain in Mexico. As of March 26, 2017, this joint venture operated 15 *Smart & Final* stores in Northwestern Mexico, which are similar in concept to our legacy *Smart & Final* stores. This joint venture operates as a Mexican domestic corporation under the name Smart & Final del Noroeste, S.A. de C.V. Our interest in this joint venture is not consolidated and is reported using the equity method of accounting.

Factors Affecting Comparability of Results of Operations

Term Loan Facility and Revolving Credit Facility Amendments

Our interest expense in any particular period is impacted by our overall level of indebtedness during that period and by changes in the applicable interest rates on such indebtedness.

During the third quarter of fiscal year 2016, we amended the Term Loan Facility to increase the size of the Term Loan Facility by $30.1 million and to extend the maturity of the term loan from November 15, 2019 to November 15, 2022. Additionally, in connection with such amendment, the Eurocurrency Borrowings applicable margin was increased from 3.25% to 3.50%. We also amended our Revolving Credit Facility to increase the committed amount to $200 million and extend the November 15, 2017 maturity date to the earlier of (a) July 19, 2021 and (b) to the extent the Term Loan Facility (and any refinancing of the Term Loan Facility) has not been paid in full, the date that is 60 days prior to the earliest scheduled maturity date of the Term Loan Facility (or such refinancing of the Term Loan Facility). We also reduced the applicable margin ranges with respect to (i) alternate base rate loans to 0.25% to 0.50% from 0.25% to 0.75% and(ii) LIBOR rate loans to 1.25% to 1.50% from 1.25% to 1.75%.

Basis of Presentation

Our fiscal year is the 52- or 53-week period ending on the Sunday closest to December 31. Each of our 52-week fiscal years consists of twelve-week periods in the first, second and fourth quarters of the fiscal year and a sixteen-week period in the third quarter. Our last completed fiscal year ended on January 1, 2017 and was a 52-week period.

Results of Operations

The following table summarizes key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales.

Consolidated Statements of Operations Data

	Twelve Weeks Ended			
	March 26, 2017		March 27, 2016	
Net sales	$ 967,017	100.0%	$ 908,453	100.0%
Cost of sales, buying and occupancy	833,906	86.2%	780,102	85.9%
Gross margin	133,111	13.8%	128,351	14.1%
Operating and administrative expenses	135,674	14.1%	125,082	13.7%
(Loss) income from operations	(2,563)	-0.3%	3,269	0.4%
Interest expense, net	8,174	0.8%	7,311	0.8%
Equity in earnings of joint venture	167	—%	444	—%
Loss before income taxes	(10,570)	-1.1%	(3,598)	-0.4%
Income tax benefit	5,978	0.6%	1,960	0.2%
Net loss	$ (4,592)	-0.5%	$ (1,638)	-0.2%
Per Share Data:				
Loss per share:				
Net loss per share - Basic	$ (0.06)		$ (0.02)	
Net loss per share - Diluted	$ (0.06)		$ (0.02)	
Other Operating Data				
Comparable store sales growth	(2.5)%		2.0%	
Smart & Final banner	(2.5)%		2.5%	
Cash & Carry banner	(2.4)%		0.3%	
Stores at end of period	308		290	
Smart & Final banner	248		235	
Extra! format	174		143	
Cash & Carry banner	60		55	

Table of Contents

Twelve Weeks Ended March 26, 2017 Compared to the Twelve Weeks Ended March 27, 2016

Net Sales

Net sales for the twelve weeks ended March 26, 2017 increased $58.6 million, or 6.4%, to $967.0 million as compared to $908.5 million for the twelve weeks ended March 27, 2016. This increase in net sales was attributable to net sales of $80.5 million from the opening of 3 new stores in the twelve weeks ended March 26, 2017 and 37 net new stores in fiscal year 2016, partially offset by a comparable store sales decline of $21.9 million in our store banners.

For the twelve weeks ended March 26, 2017, comparable store sales decreased 2.5% as compared to the twelve weeks ended March 27, 2016. This decrease in comparable store sales was attributable to decreases in both comparable transaction count of 0.4% and comparable average transaction size of 2.1%.

For the twelve weeks ended March 26, 2017, net sales for our *Smart & Final* segment increased $55.7 million, or 7.8%, to $765.0 million as compared to $709.3 million for the twelve weeks ended March 27, 2016. Comparable store sales for our *Smart &*

Final segment decreased 2.5% as compared to the twelve weeks ended March 27, 2016, attributable to decreases in both comparable transaction count of 0.2% and comparable average transaction size of 2.3%.

For the twelve weeks ended March 26, 2017, net sales for our *Cash & Carry* segment increased $2.9 million, or 1.5%, to $202.0 million as compared to $199.1 million for the twelve weeks ended March 27, 2016. Comparable store sales for our *Cash & Carry* segment decreased 2.4% as compared to the twelve weeks ended March 27, 2016, attributable to a decrease in both comparable transaction count of 2.0% and comparable average transaction size of 0.4%.

Beginning in the second quarter of 2015 and continuing through 2016 and into the first quarter of 2017, we experienced deflation in certain food and non-food commodities, and market dynamics have resulted in passing through cost decreases to customers that have negatively impacted sales growth in both total sales and comparable store sales. In comparable store sales, we believe that the principal effect of deflation is evidenced in the comparable average transaction size.

As a result of our store growth in existing markets, we also have experienced sales transfer from certain existing stores to new stores. In comparable store sales, we believe that the principal effect of this sales transfer is evidenced in the comparable sales transaction count.

In addition to the negative effect on our sales and comparable store sales rates, we believe that deflation also negatively impacts our results of operations due to the deleveraging impact of lower sales on our overall cost structure. In gross margin, the effects include certain elements of distribution and occupancy costs which are not related to the prices of products processed and sold. In operating and administrative expenses, the effects include certain elements of store operations costs which are based on units of products processed and sold.

In addition to the impacts from deflation, including effects on sales and cost structure, and sales transfer from existing to new stores as a result of store development activity, our sales for the twelve weeks ended March 26, 2017 were adversely impacted by the severe weather conditions experienced in our principal market areas.

Gross Margin

Gross margin for the twelve weeks ended March 26, 2017 increased $4.7 million, or 3.7%, to $133.1 million as compared to $128.4 million for the twelve weeks ended March 27, 2016. The increase in gross margin attributable to increased sales was $8.3 million, partially offset by a $3.5 million decrease attributable to decreased gross margin rate. As a percentage of sales, gross margin was 13.8% for the twelve weeks ended March 26, 2017 as compared to 14.1% for the twelve weeks ended March 27, 2016. Compared to the twelve weeks ended March 27, 2016, gross margin as a percentage of sales for the twelve weeks ended March 26, 2017 included lower merchandise product margin rates (including the effect of inventory losses) as a percentage of sales, accounting for a decrease of 0.21% (consisting of a 0.24% decrease related to our *Cash & Carry* segment, partially offset by a 0.03% increase related to our *Smart & Final* segment). Warehouse and transportation costs as a percentage of sales decreased 0.12% (representing a 0.10% decrease related to our *Smart & Final* segment and a 0.02% decrease related to our *Cash & Carry* segment). Store occupancy costs as a percentage of sales increased 0.32% (consisting of an increase of 0.23% related to our *Smart & Final* segment and a 0.09% increase related to our *Cash & Carry* segment). This increase in our *Smart & Final* segment included an increase of 0.42% related to stores opened in 2016 through first quarter 2017, partially offset by a 0.19% decrease related to store locations opened prior to 2016. Buying department costs decreased 0.05% in our *Smart & Final* segment.

Operating and Administrative Expenses

Operating and administrative expenses for the twelve weeks ended March 26, 2017 increased $10.6 million, or 8.5%, to $135.7 million, as compared to $125.1 million for the twelve weeks ended March 27, 2016. The increase in operating and administrative expenses was primarily due to $8.9 million of increased wages, fringe benefits and incentive bonus costs, $2.3 million of increased other store direct expenses, and $0.3 million increase in share-based compensation expense associated with our equity compensation program. These increases were partially offset by a $0.9 million decrease in marketing costs, and a $0.5 million decrease in costs associated with store closures and asset impairment costs.

As a percentage of sales, operating and administrative expenses for the twelve weeks ended March 26, 2017 increased 0.3% to 14.0% as compared to 13.7% for the twelve weeks ended March 27, 2016. Operating and administrative expenses, as a percentage of sales, increased by 0.40% due to increased wages, benefits and incentive bonuses (including a 0.45% increase related to our *Smart & Final* segment partially offset by a 0.01% decrease related to our *Cash & Carry* segment), 0.05% of the increase was due to increased other store direct expenses (primarily related to our *Smart & Final* segment), and 0.02% was related to increased share-based compensation expense associated with our equity compensation program. These increases were partially offset by a 0.16% decrease in marketing costs, and a 0.06% decrease due to decreased costs related to store closures and asset impairment costs.

Interest Expense, Net

Interest expense for the twelve weeks ended March 26, 2017 increased $0.9 million, or 11.8%, to $8.2 million as compared to $7.3 million for the twelve weeks ended March 27, 2016. This increase in interest expense was primarily due to increased average debt outstanding.

Income Tax Benefit

Our income tax benefit for the twelve weeks ended March 26, 2017 increased $4.0 million to a $6.0 million income tax benefit as compared to a $2.0 million income tax benefit for the twelve weeks ended March 27, 2016. The effective income tax rate, excluding the equity in earnings of our joint venture, for the twelve weeks ended March 26, 2017 was an income tax benefit of 55.7% as compared to an income tax benefit of 48.5% for the twelve weeks ended March 27, 2016. The change in the effective income tax rate for the twelve weeks ended March 26, 2017 was primarily related to excess tax benefits from stock award exercises and vesting.

Equity in Earnings of Joint Venture

Equity in earnings of our joint venture for the twelve weeks ended March 26, 2017 was $0.2 million as compared to $0.4 million for the twelve weeks ended March 27, 2016.

Liquidity and Capital Resources

Historically, our primary source of liquidity has been cash flows from operations. Additionally, we have the availability to make borrowings under our Credit Facilities. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures primarily for opening, converting or remodeling stores and debt service. As of March 26, 2017, we had $70.0 million drawn under our Revolving Credit Facility and $51.1 million of cash and cash equivalents.

Table of Contents

The following table sets forth the major sources and uses of cash for each of the periods set forth below, as well as our cash and cash equivalents at the end of each period.

(dollars in thousands)	Twelve Weeks Ended March 26, 2017	Twelve Weeks Ended March 27, 2016
Cash and cash equivalents at end of period	$ 50,385	$ 63,073
Cash provided by operating activities	21,311	12,251
Cash used in investing activities	(27,364)	(30,537)
Cash provided by financing activities	2,203	22,032

Operating Activities

Cash flows from operating activities consist of net income (loss) adjusted for non-cash items including depreciation and amortization, and share-based compensation and the effect of working capital changes. The increase or decrease in cash provided by operating activities for the twelve weeks ended March 26, 2017 and March 27, 2016 reflects our operating performance before non-cash expenses and charges and including the timing of receipts and disbursements.

Cash provided by operating activities for the twelve weeks ended March 26, 2017 increased $9.0 million to $21.3 million as compared to $12.3 million for the twelve weeks ended March 27, 2016. This increase was primarily attributable to lower working capital. During the twelve weeks ended March 26, 2017, we made cash interest payments of $2.3 million and cash pension contributions of $1.6 million, as compared to cash interest payments of $0.2 million and cash pension contributions of $1.0 million during the twelve weeks ended March 27, 2016.

Investing Activities

Cash used in investing activities decreased $3.1 million to $27.4 million for the twelve weeks ended March 26, 2017 as compared to $30.5 million in the twelve weeks ended March 27, 2016. This decrease was primarily attributable to a $1.8 million decrease in payments related to assets acquired in the Haggen Transaction, a $1.4 million increase in proceeds on sale of assets, and a $0.1 million decrease in other investments, partially offset by a $0.2 million increase in capital expenditures for property, plant and equipment, including capitalized software.

Financing Activities

Cash provided by financing activities decreased $19.8 million to cash provided of $2.2 million for the twelve weeks ended March 26, 2017, as compared to cash provided of $22.0 million for the twelve weeks ended March 27, 2016. This decrease was attributable to a $19.0 million reduction in net borrowings on our Revolving Credit Facility, and a $3.0 million increase in cash used for repurchases of Common Stock, partially offset by a $2.2 million increase in net proceeds from stock option exercises.

At March 26, 2017, we had cash and cash equivalents of $50.4 million, stockholders' equity of $546.0 million and debt, less debt issuance costs, of $685.4 million. At March 26, 2017, we had working capital of $1.1 million as compared to $36.8 million at March 27, 2016.

Contractual Obligations

The following table sets forth our future payments due by period of our contractual obligations as of March 26, 2017, in thousands:

	Total	Less than one year	1 - 3 Years	3 - 5 Years	Thereafter
Long-term debt	$ 695,000	$ 70,000	$ —	$ —	$ 625,000
Interest on long-term debt	203,676	30,919	68,522	73,812	30,423
Operating leases	1,480,497	132,146	254,078	226,776	867,497
Total contractual obligations	$ 2,379,173	$ 233,065	$ 322,600	$ 300,588	$ 1,522,920

The primary changes in our contractual obligations as of March 26, 2017 as compared to our contractual obligations as of January 1, 2017 relate to additional operating leases entered into during the twelve weeks ended March 26, 2017 primarily related to our new store growth program.

The interest payments on our Term Loan Facility outstanding as of March 26, 2017 incorporate the effect of the interest rate swap, which effectively converts the variable rate under the Term Loan Facility to a fixed rate. The five-year interest rate swap fixed

Table of Contents

the LIBOR component of interest at 1.47675% on a variable notional amount through March 29, 2018. See Note 4, Debt, and Note 5, Derivative Financial Instruments, to our unaudited condensed consolidated financial statements for additional information on our interest requirements and interest rate swap contract.

Purchase orders or contracts for the purchase of goods for resale in our stores and other goods and services are not included in the table above. We are not able to reasonably determine the aggregate amount of such purchase orders that may constitute established contractual obligations, as purchase orders may represent individual authorizations to purchase rather than binding agreements. Other than with respect to Unified Grocers (as described immediately below), we do not have significant agreements for the purchase of goods for resale in our stores or other goods and services that exceed our expected requirements or that are not cancelable on short notice.

We have a contractual obligation under our supply agreement with Unified Grocers to purchase a minimum amount of food and related items during any twelve-month period covered by the agreement. This contractual obligation does not exceed our expected requirements over any twelve-month period covered by the agreement. This agreement expires in December 2018. The related amounts are not included in the above table.

The table above also excludes funding of pension and other postretirement benefit and postemployment obligations. See Note 7, Retirement Benefit Plans and Postretirement and Postemployment Benefit Obligations, to our unaudited condensed consolidated financial statements for additional information on funding of our plans.

We also have asset retirement obligations with respect to owned or leased properties. Due to the nature of our business, such asset retirement obligation is immaterial.

Off Balance Sheet Arrangements

As of March 26, 2017, we had no off-balance sheet arrangements.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (''U.S. GAAP'') requires management to make estimates and assumptions that affect the reported assets, liabilities, sales and expenses in the accompanying financial statements. Critical accounting estimates are those that require the most subjective and complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. These critical accounting estimates, under different conditions or using different assumptions or estimates, could show materially different results on our financial condition and results of operations. The following are considered our most critical accounting estimates that, under different conditions or using different assumptions or estimates, could show materially different results on our financial condition and results of operations.

Share-Based Compensation

We account for share-based compensation in accordance with ASC 718, *Compensation—Stock Compensation*. In accordance with ASC 718 as updated by ASU 2016-09, share-based payments to be recognized in the statements of operations and comprehensive income (loss) as compensation expense based on their fair values over the requisite service period of the award, taking into consideration estimated forfeiture rates.

We use the Black-Scholes-Merton option-pricing model to estimate the fair value of the options on the date of each grant. The Black-Scholes-Merton option-pricing model utilizes highly subjective and complex assumptions to determine the fair value of share-based compensation, including the option's expected term and price volatility of the underlying stock.

Given the absence of a public trading market for our Common Stock prior to the IPO, the fair value of the Common Stock underlying our share-based awards was determined by our board of directors, with input from management and, in some cases, a contemporaneous valuation report prepared by an unrelated nationally recognized third-party valuation specialist, in each case using the income and market valuation approach. We believe that our board of directors had the relevant experience and expertise to determine the fair value of our Common Stock. In accordance with the American Institute of Certified Public Accountants Accounting and Valuation Guide: *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, our board of directors exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our Common Stock. These estimates are no longer necessary to determine the fair value of new awards now that the underlying shares are publicly traded.

In addition to assumptions used in the Black-Scholes-Merton option pricing model, we must also estimate a forfeiture rate to calculate the share-based compensation cost for our awards. Our forfeiture rate is based on an analysis of our actual historical forfeitures and consideration of future expected forfeiture rates.

The assumptions referred to above represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If these assumptions change and different factors are used, our share-based compensation expense could be materially different in the future. We do not believe there is a reasonable likelihood that changes in the assumptions used in our estimates will have a material effect on our financial condition or results of operations in future periods. Changes in future share-based compensation expense related to these awards may result from changes in forfeiture rates. However, we do not believe there is a reasonable likelihood that such changes will be material.

We recognize compensation cost for graded vesting awards as if they were granted in multiple awards. We believe the use of this "multiple award" method is preferable because a stock option grant with graded vesting is effectively a series of individual grants that vests over various periods. Management also believes that this provides for better matching of compensation costs with the associated services rendered throughout the applicable vesting periods.

Inventories

Inventories consist of merchandise purchased for resale which is stated at the lower of the weighted-average cost (which approximates first-in, first-out ("FIFO") or market. We provide for estimated inventory losses between physical inventory counts at our stores based upon historical inventory losses as a percentage of sales. Physical inventory counts are conducted on a recurring and frequent basis throughout the year. The provision for inventory loss is adjusted periodically to reflect updated trends of actual physical inventory count results. Historically, our actual physical inventory count results have shown our estimates to be materially reliable. We do not believe there is a reasonable likelihood that changes in our estimates will have a material effect on our financial condition or results of operations in future periods.

The proper valuation of inventory also requires us to estimate the net realizable value of our slow-moving inventory at the end of each period. We base net realizable values upon many factors, including historical recovery rates, the aging of inventories on hand, the inventory movement of specific products and the current economic conditions. When we have determined inventory to be slow-moving, the inventory is reduced to its net realizable value by recording an obsolescence valuation allowance. We believe these risks are largely mitigated because our inventory typically turns on average in less than three months.

With regard to the proper valuation of inventories, we review our valuation methodologies on a recurring basis and make refinements where the facts and circumstances dictate.

Goodwill and Intangible Assets

We account for goodwill and identified intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Goodwill and identifiable intangible assets with indefinite lives are not amortized, but instead are evaluated on an annual basis for impairment, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

We evaluate goodwill for impairment by comparing the fair value of each reporting unit to its carrying value including the associated goodwill. We have designated our reporting units to be our *Smart & Final* banner and our *Cash & Carry* banner. We determine the fair value of the reporting units using the income approach methodology of valuation that includes the discounted cash flow method as well as other generally accepted valuation methodologies.

Our detailed impairment analysis involves the use of both a market value method and discounted projected future cash flow models. Significant management judgment is necessary to evaluate the impact of operating and macroeconomic changes on existing and forecasted results. Determining market values using a discounted cash flow method requires that we make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate market rates. Our judgments are based on historical experience, current market trends and other information. In estimating future cash flows, we rely on internally generated forecasts for operating profits and cash flows, including capital expenditures. Critical assumptions include projected comparable store sales growth, timing and number of new store openings, operating profit rates, general and administrative expenses, direct store expenses, capital expenditures, discount rates, royalty rates and terminal growth rates. We determine discount rates based on the weighted average cost of capital of a market participant. Such estimates are derived from our analysis of peer companies and consider the industry weighted average return on debt and equity from a market participant perspective. We also use comparable market earnings multiple data and our Company's market capitalization to corroborate our reporting unit valuation. Factors that could cause us to change our estimates of future cash flows include a prolonged economic crisis, successful efforts by our competitors to gain market share in our core markets, our inability to compete effectively with other retailers or our inability to maintain price competitiveness. In the fourth quarter of fiscal year 2016, we completed our quantitative assessment of any potential goodwill impairment and concluded that there were no indications of impairment as of January 1, 2017. Our quantitative assessment of potential goodwill impairment concluded that the fair value of the *Smart & Final* banner and *Cash & Carry* banner exceeded their respective carrying value by over 10% and 90%, respectively. Based on this excess of fair value over carrying value, we believe that reasonable variations in the estimates and assumptions used in our impairment analysis would not result in an indication that the reporting unit's goodwill may be impaired.

If the fair value of the reporting unit exceeds the carrying value of the net assets, including goodwill assigned to that unit, goodwill is not impaired. If the carrying value of the reporting unit's net assets, including goodwill, exceeds the fair value of the reporting unit, we are required to perform a second step, as this is an indication that the reporting unit's goodwill may be impaired. In this step, we compare the implied fair value of the reporting unit's goodwill with the carrying amount of the reporting unit's goodwill.

The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

If the carrying amount of a reporting unit's goodwill exceeds its implied value, then an impairment of goodwill has occurred and we would recognize an impairment charge for the difference between the carrying amount and the implied fair value of goodwill.

We evaluate our indefinite-lived intangible assets associated with trade names using a two-step approach. The first step screens for potential impairment by comparing the fair value of each trade name with its carrying value. The second step measures the amount of impairment. We determine the fair value of the indefinite-lived trade names using a "relief from royalty payments" methodology. This methodology involves estimating reasonable royalty rates for each trade name and applying these royalty rates to a revenue stream and discounting the resulting cash flows to determine fair value. In the periods presented, we did not recognize any indefinite-lived trade name impairment loss as a result of such evaluation.

Finite-lived intangible assets, like other long-lived assets as required by ASC 360 (as defined below), are subject to review for impairment whenever events or changes in circumstances indicate that the carrying amount of the finite-lived intangible asset may not be recoverable. Impairment is recognized to the extent the sum of the discounted estimated future cash flows from the use of the finite-lived intangible asset is less than the carrying value.

Impairments of Long-Lived Assets

In accordance with ASC 360, *Property, Plant, and Equipment*, ("ASC 360"), we assess our long-lived assets, including property, plant and equipment and assets under capital leases, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We believe that impairment assessment of long-lived assets is critical to the financial statements because the recoverability of the amounts, or lack thereof, could significantly affect our results of operations. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, amount of such cash flows, and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates and independent appraisals as appropriate to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate. We group and evaluate long-lived assets for impairment at the individual store level, which is the lowest level at which individual identifiable cash flows are available. We regularly review our stores' operating performance for indicators of impairment, which include a significant underperformance relative to expected historical or projected future results of operations or a significant negative industry or economic trend.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its future undiscounted cash flows, an impairment charge is recognized equal to the excess of the carrying value over the estimated fair value of the asset. We measure the fair value of our long-lived assets on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy.

Capitalized software costs are subject to review for impairment whenever events or changes in circumstances indicate that the carrying amount of the capitalized software may not be recoverable, whether it is in use or under development. Impairment is recognized to the extent the sum of the future discounted cash flows from the use of the capitalized software is less than the carrying value.

Application of alternative assumptions, such as changes in estimates of future cash flows, could produce significantly different results. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in the United States and Mexico.

Income taxes are accounted for under the balance sheet model for recording current and deferred taxes. Deferred tax assets and liabilities are measured using currently enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities for a change in tax rates is recognized in income in the period that includes the enactment date. Under applicable accounting guidance, we are required to evaluate the realizability of our deferred tax assets. The realization of our deferred tax assets is dependent upon all available evidence, both positive and negative, including reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations. The assumptions about future taxable income require the use of significant judgment and are consistent with the plans and estimates we are using to manage our underlying businesses. We consider objective historical evidence when evaluating future taxable income, including three years of cumulative operating income (loss). Applicable accounting guidance requires that we recognize a valuation allowance when it is more likely than not that all or a portion of all of a deferred tax asset will not be realized due to our inability to generate sufficient taxable income in future periods. Accordingly, significant judgment is required in our assessment of deferred tax assets and valuation allowances when determining the provision for income taxes and related accruals.

The calculation of our tax liabilities involves uncertainties in the application of complex tax laws and regulations in different jurisdictions. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, which includes resolution of any related appeals or litigation processes, on the basis of the technical merits.

We record unrecognized tax benefits as liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our estimates of unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future cash generation will be sufficient to meet future cash needs and our specific plans for reinvestment of those non-U.S. subsidiary earnings. We have not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $5.6 million of undistributed earnings of foreign subsidiaries indefinitely invested outside the United States. If we decide to repatriate foreign earnings, we would need to adjust our income tax provision in the period we determined such earnings will no longer be indefinitely invested outside the United States.

Self-Insurance

We have various insurance programs related to our risks and costs associated with workers' compensation and general liability claims. We have elected to purchase third-party insurance to cover the risk in excess of certain dollar limits established for each respective insurance program.

We are also responsible for the payment of claims less than the insured amount. We establish estimated accruals for our insurance programs based on certain factors, including available claims data, historical trends and experience, as well as projected ultimate costs of the claims. These accruals are based on estimates prepared with the assistance of outside actuaries, and the ultimate cost of these claims may vary from initial estimates and established accruals. We believe that the use of actuarial studies to determine self-insurance accruals represents a consistent method of measuring these subjective estimates. The actuaries periodically update their estimates and we record such adjustments in the period in which such determination is made. The inherent uncertainty of future loss projections could cause actual claims to differ from our estimates. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. For example, a 5% change in our insurance and self-insured claims liabilities at January 1, 2017, excluding the risk in excess of certain dollar limits related to self-insured program with our third-party insurance carriers, would have affected pre-tax income by approximately $2.0 million for fiscal year 2016. Historically, periodic adjustments to our estimates have not been material.

Closed Store Reserve

We maintain reserves for costs associated with closures of operating stores and other properties that are no longer being utilized in current operations. In the event a leased store is closed before the expiration of the associated lease, the discounted remaining lease obligation less estimated sublease rental income, asset impairment charges related to improvements and fixtures, inventory write-downs and other miscellaneous closing costs associated with the disposal activity are recognized when the store closes.

Adjustments to closed stores and other properties reserves primarily relate to changes in estimated timing and amounts of subtenant income or actual exit costs differing from original estimates. Adjustments are made for changes in estimates in the period in which the changes become known. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. For example, a 5% change in our closed stores and other properties reserves at January 1, 2017, would have affected pre-tax income by approximately $0.4 million for fiscal year 2016.

Retirement Benefit Plans and Postretirement Benefit Plans

Certain of our employees are covered by a funded noncontributory qualified defined benefit pension plan. U.S. GAAP requires that we measure the benefit obligations and fair value of plan assets that determine our plans' funded status as of our fiscal year end date.

The determination of our obligation and expense for retirement benefits plans and postretirement benefit plans is dependent, in part, on our selection of certain assumptions used by us and our actuaries in calculating such amounts. Those assumptions are described in Note 8, Retirement Benefit Plans and Postretirement and Postemployment Benefit Obligations, in our Annual Report on Form 10-K filed with the SEC on March 16, 2017. Pension assumptions are significant inputs to the actuarial models that measure pension benefit obligations and related effects on operations. Three assumptions, among others—discount rate, expected long-term return on plan assets and rate of compensation increases—are important elements of plan expense and asset/liability measurement. We evaluate these critical assumptions at least annually. We periodically evaluate other assumptions involving demographic factors, such as retirement age, mortality and turnover, and update them to reflect our experience and expectations for the future. In 2015, the

Society of Actuaries released an update to the mortality scales which update life expectancy assumptions. In consideration of these scales, we modified the mortality assumptions used in determining our retirement benefit plans and postretirement benefit plans as of January 3, 2016. The impact of these new mortality assumptions resulted in a slight decrease to our defined benefit pension, supplemental executive retirement plan ("SERP"), and postretirement benefit plan obligations and a slight decrease in future related expense. In 2016, the Society of Actuaries released a further update to these mortality scales, which was used in determining our retirement benefit plans and postretirement benefit plan as of January 1, 2017. The impact of these updated mortality assumptions resulted in a slight decrease to our pension, SERP and postretirement benefit plan obligations and a slight decrease in future related expense. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors.

In accordance with U.S. GAAP, the amount by which actual results differ from the actuarial assumptions is accumulated and amortized over future periods and, therefore, affects recognized expense in such future periods. While we believe our assumptions are appropriate, significant differences in actual results or significant changes in our assumptions may materially affect our pension and other postretirement obligations and future expenses.

We determine the discount rate using current investment yields on high quality fixed—income investments. The discount rate assumption used to determine the year-end projected benefit obligation is increased or decreased to be consistent with the change in yield rates for high quality fixed-income investments for the expected period to maturity of the pension benefits. A lower discount rate increases the present value of benefit obligations and increases pension expense. The discount rate used to determine benefit obligations for our defined benefit pension plan as of January 1, 2017 was 4.30%. The discount rate used to determine benefit obligations under our SERP as of January 1, 2017 was 3.55%. The discount rate used to determine benefit obligations under our postretirement benefit plan as of January 1, 2017 was 4.20%.

We determine the expected long-term rate of return on plan assets for our defined benefit pension plan using an allocation approach that considers diversification and rebalancing for a portfolio of assets invested over a long-term time horizon. The approach relies on the historical returns of the plan's portfolio as well as relationships between equities and fixed income investments, consistent with the widely accepted capital market principle that a diversified portfolio with a larger allocation to equity investments has historically generated a greater long-term return. For fiscal year 2016, the Company's assumed rate of return for our defined benefit pension plan was 6.25%.

Sensitivity to changes in the major assumptions for our benefit plans are as follows (dollars in thousands):

Assumption	Change	Projected benefit obligation (decrease)/ increase	Expense (decrease)/ increase
Defined benefit pension plan:			
Discount rate	+/- 50 bps	$(18,357)/$20,967	$31/$301
Expected long-term return on plan assets	+/- 50 bps	—	(734)/734
SERP:			
Discount rate	+/- 50 bps	(1,305)/1,404	101/(111)
Postretirement benefit plan:			
Discount rate	+/- 50 bps	(1,010)/1,123	(113)/18

Vendor Rebates and Other Allowances

As a component of our consolidated procurement program and consistent with standard practices in the retail industry, we frequently enter into contracts with vendors that provide for payments of rebates or other allowances. These rebates and allowances are primarily comprised of volume or purchase-based incentives, advertising allowances and promotional discounts. The purpose of these incentives and allowances is generally to help defray the costs we incur for stocking, advertising, promoting and selling the vendor's products.

As prescribed by U.S. GAAP, these vendor payments are reflected in the carrying value of the inventory when earned or as progress is made toward earning the rebate or allowance and as a component of cost of sales as the inventory is sold. Certain of these vendor contracts provide for rebates and other allowances that are contingent upon us meeting specified performance measures such as a cumulative level of purchases over a specified period of time. Such contingent rebates and other allowances are given accounting recognition at the point at which achievement of the specified performance measures are deemed to be probable and reasonably estimable. We review the relevant or significant factors affecting proper performance measures, rebates and other allowances on a recurring basis and make adjustments where the facts and circumstances dictate. We do not believe there is a reasonable likelihood that changes in the assumptions used in our estimate will have a material effect on our financial condition or results of our operations in future periods.

Recently Issued Accounting Pronouncements

See Note 3, Recent Accounting Pronouncements, to our accompanying unaudited condensed consolidated financial statements contained elsewhere in this Quarterly Report on Form 10-Q. We have determined that all other recently issued accounting standards will not have a material impact on our consolidated financial statements, or do not apply to our operations.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market risk represents the risk of changes in the value of market risk sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in the results of our operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign currency and interest rate risks. We do not use derivative financial instruments in connection with these commodity market risks.

Commodity Risk

We are subject to volatility in food costs as a result of market risk associated with commodity prices. Although we typically are able to mitigate these cost increases, our ability to continue to do so, either in whole or in part, may be limited by the competitive environment we operate in.

Interest Rate Market Risk

Based on our variable rate debt balance as of March 26, 2017, a 1% increase in interest rates would increase our annual interest cost by approximately $2.6 million. This impact reflects any offset from our current hedging activities. A decrease of 1% in interest rates would decrease our annual interest cost by $1.4 million due to an interest rate floor that exists on the Term Loan Facility and current hedging activities.

Foreign Currency Exchange Rate Market Risk

We are exposed to market risks relating to fluctuations in foreign exchange rates between the U.S. dollar and other foreign currencies, primarily the Mexican Peso. Our exposure to foreign currency risk is limited to our operations in Mexico and the equity earnings of our joint venture. Such exposure, as of March 26, 2017, is primarily related to our $14.5 million equity investment in the Mexico joint venture. The remainder of our business is conducted in U.S. dollars and thus is not exposed to fluctuation in foreign currency. We do not hedge our foreign currency exposure and therefore are not exposed to such hedging risk.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a- 15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to the Company's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our CEO and CFO have concluded that, as of March 26, 2017, our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting for the twelve weeks ended March 26, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

On February 11, 2016, Smart & Final Stores, Inc. received a subpoena from the District Attorney for the County of Yolo, California, seeking information concerning our handling, disposal and reverse logistics of potential hazardous waste at our stores and distribution centers in California. We have provided information and are cooperating with the authorities from multiple counties in California in connection with this ongoing matter. In the fourth quarter of 2016, we recorded a loss related to this matter in an amount considered to be immaterial. At this time, we cannot reasonably estimate possible additional loss or range of additional loss that may arise from this matter or whether this matter will have a material impact on our financial condition or operating results.

We are engaged in various other legal actions, claims and proceedings arising in the ordinary course of business, including claims related to employment related matters, breach of contracts, products liabilities and intellectual property matters resulting from our business activities. We do not believe that the ultimate resolution of these pending claims will have a material adverse effect on our business, financial condition, results of operation or cash flows. However, litigation is subject to many uncertainties, and the outcome of certain individual litigated matters may not be reasonably predictable and any related damages may not be estimable. Some litigation matters could result in an adverse outcome to us, and any such adverse outcome could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 1A. Risk Factors.

For a discussion of our potential risks and uncertainties, see the information in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K, for the year ended January 1, 2017 filed with the SEC on March 17, 2017. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Issuer Purchases of Equity Securities

The following table provides information about our share repurchase activity during the twelve weeks ended March 26, 2017.

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plan or Program (in thousands)(4)
January 2 to January 29, 2017	163,777	$ 14.48	163,777	$ 11,145
January 30 to February 26, 2017	161,220	14.66	158,932	8,818
February 27, 2017 to March 26, 2017	97,687	13.99	91,950	7,526
Total	422,684	$ 14.43	414,659	

(1) Periodic information is presented by reference to our fiscal periods during the first quarter of fiscal year 2017.

(2) Average price per share includes related expense.

(3) During the twelve weeks ended March 26, 2017 the Company reacquired 8,025 shares of common stock to satisfy tax withholding obligation in connection with the vesting of 19,067 shares of restricted stock granted to eligible employees.

(4) In the third quarter 2016, our Board of Directors authorized a program to repurchase up to $25 million of shares of our common stock. Repurchases under the share repurchase program commenced on September 19, 2016 and may occur through August 31, 2017. The specific timing and amount of the repurchases will be dependent on market conditions, applicable laws and other factors. In connection with the share repurchase program, we may acquire shares in open market transactions or privately negotiated transactions.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of Smart & Final Stores, Inc. (1)
3.2	Second Amended and Restated Bylaws of Smart & Final Stores, Inc. (1)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted 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*

* Filed herewith

(1) Filed as an exhibit to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-196931) filed with the SEC on September 22, 2014, and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the persons undersigned thereunto duly authorized.

SMART & FINAL STORES, INC.
(Registrant)

May 3, 2017	/s/ DAVID G. HIRZ David G. Hirz Chief Executive Officer (Principal Executive Officer)
May 3, 2017	/s/ RICHARD N. PHEGLEY Richard N. Phegley Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, David G. Hirz, certify that:

1. I have reviewed this Form 10-Q of Smart & Final Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2017

/s/ DAVID G. HIRZ
David G. Hirz
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Richard N. Phegley, certify that:

1. I have reviewed this Form 10-Q of Smart & Final Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 3, 2017

/s/ RICHARD N. PHEGLEY
Richard N. Phegley
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Smart & Final Stores, Inc. (the "Company"), for the quarterly period ended March 26, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David G. Hirz, as Chief Executive Officer of the Company, and Richard N. Phegley, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAVID G. HIRZ
Name: David G. Hirz
Title: Chief Executive Officer
(Principal Executive Officer)
Date: May 3, 2017

/s/ RICHARD N. PHEGLEY

Name: Richard N. Phegley
Title: Chief Financial Officer
(Principal Financial Officer)
Date: May 3, 2017

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Interactive Data

Document Format Files

Seq	Description	Document	Type	Size
1	10-Q	a17-8867_110q.htm	10-Q	1071126
2	EX-31.1	a17-8867_1ex31d1.htm	EX-31.1	13638
3	EX-31.2	a17-8867_1ex31d2.htm	EX-31.2	12881
4	EX-32.1	a17-8867_1ex32d1.htm	EX-32.1	11381
	Complete submission text file	0001104659-17-029529.txt		6473300

Data Files

Seq	Description	Document	Type	Size
5	XBRL INSTANCE DOCUMENT	sfs-20170326.xml	EX-101.INS	1520614
6	XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT	sfs-20170326.xsd	EX-101.SCH	44131
7	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT	sfs-20170326_cal.xml	EX-101.CAL	58050
8	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT	sfs-20170326_def.xml	EX-101.DEF	202960
9	XBRL TAXONOMY EXTENSION LABELS LINKBASE DOCUMENT	sfs-20170326_lab.xml	EX-101.LAB	492102
10	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT	sfs-20170326_pre.xml	EX-101.PRE	377080