Chefs' Warehouse, Inc.
Form 10-Q
November 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 26, 2014

OR

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

For the transition period from _________ to _________

Commission file number: 001-35249

THE CHEFS’ WAREHOUSE, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, par value $.01 per share, outstanding at October 31, 2014: 25,057,511

THE CHEFS' WAREHOUSE, INC.

FORM 10-Q

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Statements in this report regarding the business of The Chefs' Warehouse, Inc. (the "Company") that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties and are based on current expectations and management estimates; actual results may differ materially. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and/or could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The risks and uncertainties which could impact these statements include, but are not limited to, the Company's and its customers' sensitivity to general economic conditions, including the current economic environment, changes in disposable income levels and consumer discretionary spending on food-away-from-home purchases; the Company's vulnerability to economic and other developments in the geographic markets in which it operates; the risks of supply chain interruptions due to lack of long-term contracts, severe weather or more prolonged climate change, work stoppages or otherwise; the risk of loss of customers due to the fact the Company does not customarily have long-term contracts with its customers; changes in the availability or cost of the Company's specialty food products; the ability to effectively price the Company's specialty food products and reduce the Company's expenses; the relatively low margins of the foodservice distribution industry and the Company's sensitivity to inflationary and deflationary pressures; the Company's ability to successfully identify, obtain financing for and complete acquisitions of other foodservice distributors and to integrate and realize expected synergies from those acquisitions; the Company's ability to deploy the remaining net proceeds from its September 2013 common stock offering within the time frame currently contemplated; the Company's ability to open, and begin servicing customers from, a new Chicago distribution center and the expenses associated therewith; increased fuel costs and expectations regarding the use of fuel surcharges; fluctuations in the wholesale prices of beef, poultry and seafood, including increases in these prices as a result of increases in the cost of feeding and caring for livestock; the loss of key members of the Company's management team and the Company's ability to replace such personnel; the strain on the Company's infrastructure and resources caused by its growth; the Company's ability to recover its losses related to the accounting issue at its Michael's Finer Meats subsidiary from the former owners of that business; the results of the Company's continuing investigation into the accounting issue involving its Michael's Finer Meats subsidiary; and other risks and uncertainties included under the heading "Risk Factors" in our Annual Report on Form 10-K filed on March 12, 2014 with the Securities and Exchange Commission (the "SEC") and other reports filed by the Company with the SEC since that date.

PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	September 26, 2014 (unaudited)	December 27, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,157	$ 20,014
Accounts receivable, net of allowance of $4,766 in 2014 and $3,642 in 2013	88,299	76,413
Inventories, net	70,553	64,710
Deferred taxes, net	3,635	2,708
Prepaid expenses and other current assets	11,091	16,250
Total current assets	178,735	180,095
Restricted cash	—	5,578
Equipment and leasehold improvements, net	40,633	27,589
Software costs, net	4,701	2,265
Goodwill	77,532	78,026
Intangible assets, net	52,948	57,450
Other assets	3,683	3,755
Total assets	$ 358,232	$ 354,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 32,082	$ 33,925
Accrued liabilities	16,420	15,803
Accrued compensation	6,209	5,996
Current portion of long-term debt	7,252	6,867
Total current liabilities	61,963	62,591
Long-term debt, net of current portion	137,565	140,847
Deferred taxes, net	8,580	8,338
Other liabilities and deferred credits	8,929	10,917
Total liabilities	217,037	222,693
Commitments and contingencies:		
Stockholders' equity:		

Preferred Stock—$0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding September 26, 2014 and December 27, 2013	—	—
Common Stock—$0.01 par value, 100,000,000 shares authorized, 25,051,361 and 25,032,216 shares issued and outstanding September 26, 2014 and December 27, 2013, respectively	251	250
Additional paid in capital	97,518	96,973
Cumulative foreign currency translation adjustment	(646)	(214)
Retained earnings	44,072	35,056
Stockholders' equity	141,195	132,065
Total liabilities and stockholders' equity	$ 358,232	$ 354,758

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

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

	13 Week Period Ended	
	September 26, 2014	September 27, 2013
Net sales	$208,070	$170,581
Cost of sales	157,377	126,624
Gross profit	50,693	43,957
Operating expenses	41,660	34,522
Operating income	9,033	9,435
Interest expense	1,896	2,328
Loss on asset disposal	5	—
Income before income taxes	7,132	7,107
Provision for income tax expense	2,925	2,947
Net income	$4,207	$4,160
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(394)	142
Comprehensive income	$3,813	$4,302
Net income per share:		
Basic	$0.17	$0.20
Diluted	$0.17	$0.20
Weighted average common shares outstanding:		
Basic	24,649,837	20,928,148
Diluted	24,845,899	21,145,159

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

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

	39 Week Period Ended	
	September 26, 2014	September 27, 2013
Net sales	$608,397	$480,158
Cost of sales	459,234	357,068
Gross profit	149,163	123,090
Operating expenses	127,824	96,701
Operating income	21,339	26,389
Interest expense	6,063	5,598
(Gain) loss on asset disposal	(6)	4
Income before income taxes	15,282	20,787
Provision for income tax expense	6,266	8,633
Net income	$9,016	$12,154
Other comprehensive loss:		
Foreign currency translation adjustments	(432)	(195)
Comprehensive income	$8,584	$11,959
Net income per share:		
Basic	$0.37	$0.58
Diluted	$0.36	$0.58
Weighted average common shares outstanding:		
Basic	24,631,934	20,819,209
Diluted	24,845,212	21,052,560

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	39 Week Period Ended	
	September 26, 2014	September 27, 2013
Cash flows from operating activities:		
Net income	$9,016	$12,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,230	1,925
Amortization	4,405	3,537
Provision for allowance for doubtful accounts	759	443
Deferred credits	(50)	282
Deferred taxes	(1,071)	228
Amortization of deferred financing fees	640	405
Stock compensation	1,032	892
Change in fair value of earnouts	324	49
(Gain) loss on asset disposal	(6)	4
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(12,482)	(2,136)
Inventories	(6,013)	(1,262)
Prepaid expenses and other current assets	5,152	(133)
Accounts payable and accrued liabilities	(2,696)	(1,448)
Other liabilities	(92)	26
Other assets	(520)	(218)
Net cash provided by operating activities	628	14,748
Cash flows from investing activities:		
Capital expenditures	(15,775)	(5,660)
Proceeds from asset disposals	50	—
Purchase price adjustment (Cash paid for acquisitions, net of cash received)	400	(54,364)
Net cash used in investing activities	(15,325)	(60,024)
Cash flows from financing activities:		
Payment of debt	(5,211)	(3,652)
Net proceeds from secondary offering	—	75,060
Proceeds from senior secured notes	—	100,000
Payment of deferred financing fees	—	(1,230)
Surrender of shares to pay withholding taxes	(486)	(270)
Change in restricted cash	5,578	4,800
Borrowings under revolving credit line	—	70,800

Payments under revolving credit line	—	(145,800)
Net cash (used in) provided by financing activities	(119)	99,708
Effect of foreign currency on cash and cash equivalents	(41)	66
Net (decrease) increase in cash and cash equivalents	(14,857)	54,498
Cash and cash equivalents-beginning of period	20,014	118
Cash and cash equivalents-end of period	$5,157	$54,616
Supplemental cash flow disclosures:		
Cash paid for income taxes	$8,785	$9,160
Cash paid for interest	$5,957	$4,047
Noncash investing activity:		
Software financing	$2,304	$1,944

See accompanying notes to condensed consolidated financial statements.

THE CHEFS' WAREHOUSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Information as of September 26, 2014 and for the 13 weeks and 39 weeks ended September 26, 2014

and September 27, 2013 is unaudited)

Note 1—Operations and Basis of Presentation

Description of Business and Basis of Presentation

The financial statements include the condensed consolidated accounts of The Chefs' Warehouse, Inc. (the "Company") and its direct and indirect wholly owned subsidiaries. The Company's quarterly periods end on the thirteenth Friday of each quarter. Every six to seven years the Company will add a fourteenth week to its fourth quarter to more closely align its year end to the calendar year. The Company operates in one segment, food product distribution. The Company's customer base consists primarily of menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, patisseries, bakeries, chocolatiers, cruise lines, casinos, culinary schools, specialty food stores and, in the case of the Company's Allen Brothers 1893, LLC ("Allen Brothers") subsidiary, individual customers.

Consolidation

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

Unaudited Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements and the related interim information contained within the notes to such condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules of the Securities and Exchange Commission ("SEC") for interim information and quarterly reports on Form 10-Q. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended December 27, 2013 filed as part of the Company's Annual Report on Form 10-K, as filed with the SEC on March 12, 2014.

The unaudited condensed consolidated financial statements appearing in this Form 10-Q have been prepared on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K, as filed with the SEC on March 12, 2014, and in the opinion of management include all normal recurring adjustments that are necessary for the fair statement of the Company's interim period results. The year-end condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by GAAP. Due to seasonal fluctuations and other factors, the results of operations for the 13 and 39 weeks ended September 26, 2014 are not necessarily indicative of the results to be expected for the full year.

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is not permitted. We expect to adopt this guidance when effective, and are still evaluating the impact this standard will have on our financial statements.

Note 2—Earnings Per Share

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

	13 Weeks Ended September 26, 2014	September 27, 2013	39 Weeks Ended September 26, 2014	September 27, 2013
Net income	$4,207	$4,160	$9,016	$12,154
Net income per share:				
Basic	$0.17	$0.20	$0.37	$0.58
Diluted	$0.17	$0.20	$0.36	$0.58
Weighted average common shares:				
Basic	24,649,837	20,928,148	24,631,934	20,819,209
Diluted	24,845,899	21,145,159	24,845,212	21,052,560

Reconciliation of net income per common share:

	13 Weeks Ended September 26, 2014	September 27, 2013	39 Weeks Ended September 26, 2014	September 27, 2013
Numerator:				
Net income	$ 4,207	$ 4,160	$ 9,016	$ 12,154
Denominator:				
Weighted average basic common shares outstanding	24,649,837	20,928,148	24,631,934	20,819,209
Dilutive effect of unvested common shares	196,062	217,011	213,278	233,351
Weighted average diluted common shares outstanding	24,845,899	21,145,159	24,845,212	21,052,560

Note 3—Fair Value Measurements; Fair Value of Financial Instruments

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value

As of September 26, 2014 the Company's only assets or liabilities measured at fair value were the contingent earn-out liabilities for the Queensgate Foodservice ("Queensgate") and Allen Brothers acquisitions. These liabilities were estimated using Level 3 inputs and had fair values of $984 and $6,622 at September 26, 2014, respectively, for Queensgate and Allen Brothers. These liabilities are reflected in accrued liabilities and other liabilities on the balance sheet. The fair value of contingent consideration was determined based on a probability-based approach which includes projected results, percentage probability of occurrence and discount rate to present value the payments. A significant change in projected results, discount rate, or probabilities of occurrence could result in a significantly higher or lower fair value measurement. As of December 27, 2013, the contingent earnout liabilities for the Queensgate and Allen Brothers acquisitions were $960 and $6,322, respectively, and were reflected in other liabilities on the balance sheet. The increases in the earn-out liabilities resulted in increases in operating expenses of $65 and $324 for the 13 and 39 weeks ended September 26, 2014, respectively.

Fair Value of Financial Instruments

The carrying amounts reported in the Company's condensed consolidated balance sheets for accounts receivable and accounts payable approximate fair value due to the immediate to short-term maturity of these financial instruments. The fair value of the term loan approximated its book value as of September 26, 2014 and December 27, 2013, as this instrument had a variable interest rate that reflected the current market rate. The carrying amount of the Company's senior secured notes at September 26, 2014 and December 27, 2013 approximates fair value as the interest rate obtained by the Company approximates the prevailing interest rates for similar instruments.

Note 4—Acquisitions

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

On December 11, 2013, the Company acquired substantially all the assets of Allen Brothers (and its subsidiaries) based in Chicago, Illinois. Founded in 1893, Allen Brothers is a leading processor and distributor of premium quality meats to the nation's finest restaurants, hotels, casinos and country clubs. In addition, Allen Brothers supplies many of those same high quality products to consumers through a direct mail and e-commerce platform. The total purchase price for the business is expected to be approximately $33,139 (subject to customary working capital adjustments), of which $23,939 was paid at closing with cash proceeds from the Company's September 2013 common stock offering. The remaining $9,200 represents pension withdrawal liabilities of $2,878 assumed by the Company and contingent earnout consideration with a present value of $6,322 as of the closing, to be paid upon the achievement of certain EBITDA and revenue milestones over the four-year period following the closing. At December 11, 2013, the Company estimated the fair value of this contingent consideration to be $6,322 based upon the most likely expected payout. This contingent liability is adjusted to fair value on a quarterly basis and is estimated to be $6,622 at September 26, 2014. The Company expensed $300 of professional fees in operating expenses related to the acquisition during the year ended December 27, 2013. The Company is in the process of finalizing a valuation of the tangible and intangible assets of Allen Brothers as of the acquisition date. These assets will be valued at fair value using Level 3 inputs. Other intangible assets are expected to be amortized over 10 years. Goodwill for the Allen Brothers acquisition will be amortized over 15 years for tax purposes.

On May 1, 2013, the Company acquired 100% of the equity interests of Qzina Specialty Foods North America Inc. ("Qzina"), a British Columbia, Canada corporation based in Pompano Beach, Florida. Founded in 1982, Qzina is a leading supplier of gourmet chocolate, dessert and pastry products dedicated to the pastry professional. At the time of its acquisition, Qzina supplied some of the finest restaurants, bakeries, patisseries, chocolatiers, hotels and cruise lines throughout the U.S. and Canada. The total purchase price for Qzina was approximately $31,396, net of $578 of cash, and was funded with borrowings under the revolving credit facility portion of the Company's senior secured credit facilities. In the third quarter of 2014, the Company received a settlement of $491 from the prior owners of Qzina directly related to disputes regarding the working capital adjustment. The Company reduced goodwill by $400 and used $91 to offset legal fees that were incurred in connection with the dispute. The Company expensed $149 of legal fees in operating expenses related to the acquisition in the year ended December 27, 2013. The Company has completed a formal valuation of the tangible and intangible assets of Qzina as of the acquisition date. These assets were valued at fair value using Level 3 inputs. Other intangible assets consist of trademarks, which will be amortized over 20 years, customer relationships, which will be amortized over 20 years, and covenants not to compete, which will be amortized over 2-5 years. Goodwill for the Qzina acquisition will not be deductible for tax purposes.

On December 31, 2012, the Company purchased substantially all the assets of Queensgate, a foodservice distributor based in Cincinnati, Ohio. The purchase price for Queensgate was approximately $21,934, which the Company financed with borrowings under the revolving credit facility portion of the Company’s then-existing senior secured credit facilities. Additionally, the purchase price may have been increased by up to $2,400 based upon the achievement of certain EBITDA milestones over a two-year period following the closing. At December 31, 2012, the Company estimated the fair value of this contingent consideration to be $2,118 based upon the most likely expected payout. This contingent liability is adjusted to fair value on a quarterly basis and is estimated to be $984 at September 26, 2014. Queensgate did not meet the targeted EBITDA thresholds requiring payment for fiscal 2013 results, and the liability for this portion of the earnout was taken into income during 2013. The Company expensed $69 of legal fees in operating expenses related to the acquisition in the year ended December 27, 2013. The Company has completed a formal valuation of the tangible and intangible assets of Queensgate. These assets were valued at fair value using Level 3 inputs. Other intangible assets consist of customer relationships, which will be amortized over 7 years, and covenants not to compete, which will be amortized over 5 years. Goodwill for the Queensgate acquisition will be amortized for tax purposes over 15 years.

In the third quarter of fiscal 2014, the Company received a payment of approximately $1,500 from the former owners of Michael's Finer Meats ("Michael's"), which the Company acquired in August 2012, related to the settlement of a dispute associated with the inventory issues we experienced at Michael's. This settlement was recorded as a reduction of operating expenses.

The table below details the assets and liabilities acquired as part of the acquisitions of Allen Brothers, which was effective as of December 9, 2013, Qzina, which was effective as of May 1, 2013 and Queensgate, which was effective as of December 31, 2012, and the allocation of the purchase price paid in connection with these acquisitions.

	Allen Brothers	Qzina	Queensgate
Current assets (includes cash acquired)	$15,797	$22,498	$4,140
Customer relationships	—	6,070	1,520
Trademarks	—	4,411	—
Goodwill	10,952	5,445	15,243
Other intangibles	9,275	—	—
Non-compete agreement	—	2,480	2,920
Fixed assets	4,518	906	1,909
Other assets	33	—	—
Deferred tax liability	—	(4,302)	(863)
Capital leases	—	(137)	—
Earn-out liability	(6,322)	—	(2,118)
Pension exit liability	(2,878)	—	—
Unfavorable leases	—	(6)	—
Current liabilities	(7,436)	(5,391)	(817)
Cash purchase price	$23,939	$31,974	$21,934

The table below presents pro forma consolidated income statement information as if Qzina and Allen Brothers had been included in the Company's consolidated results for fiscal 2013. The pro forma results were prepared from financial information obtained from the sellers of the business, as well as information obtained during the due diligence process associated with the acquisitions. The pro forma information has been prepared using the purchase method of accounting, giving effect to the acquisitions as if the acquisitions had been completed on December 29, 2012. The pro forma information is not necessarily indicative of the Company's results of operations had the acquisitions been completed on the above date, nor is it necessarily indicative of the Company's future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions and also does not reflect additional revenue opportunities following the acquisitions. The pro forma information reflects amortization and depreciation of the acquisitions at their respective fair values based on available information and to give effect to the financing for the acquisitions and related transactions.

	13 Weeks Ended September 27, 2013	39 Weeks Ended September 27, 2013
Net sales	$188,634	$556,100
Income before provision for income taxes	7,220	21,479

Note 5—Inventory

Inventory consists of finished product and is recorded on a first-in, first-out basis. Inventory is reflected net of reserves for shrinkage and obsolescence totaling $1,054 and $683 at September 26, 2014 and December 27, 2013, respectively.

Note 6—Restricted Cash

On April 26, 2012, Dairyland HP LLC ("DHP") entered into a financing arrangement under the New Markets Tax Credit ("NMTC") program under the Internal Revenue Code of 1986, as amended (the "Code"), pursuant to which Commercial Lending II LLC ("CLII"), a community development entity and a subsidiary of JPMorgan Chase Bank, N.A., provided to DHP an $11,000 construction loan (the "NMTC Loan") to help fund DHP's expansion and build-out of the Company's new Bronx, NY distribution facility. As of September 26, 2014, these funds have been fully utilized. Prior to their use, the proceeds from this loan were reflected as restricted cash on the balance sheet. For more information on the NMTC Loan see Note 9.

Note 7—Equipment and Leasehold Improvements

As of the dates indicated, plant, equipment and leasehold improvements consisted of the following:

	Useful Lives	As of September 26, 2014	December 27, 2013
Land	Indefinite	$1,464	$1,464
Buildings	20 years	3,672	3,672
Machinery and equipment	5-10 years	7,218	7,111
Computers, data processing and other equipment	3-7 years	6,265	6,006
Leasehold improvements	7-15 years	9,039	9,091
Furniture and fixtures	7 years	887	622
Vehicles	5 years	969	1,001
Other	7 years	95	95
Construction-in-process		28,532	14,414
		58,141	43,476
Less: accumulated depreciation and amortization		(17,508)	(15,887)
Equipment and leasehold improvements, net		$40,633	$27,589

Construction-in-process at September 26, 2014 and December 27, 2013 related primarily to the build out of the Company's new distribution facilities in Bronx, NY and Las Vegas, NV, and the implementation of its JD Edwards ERP system. The Company expects to spend approximately $14,000 in addition to what was already spent to complete these projects by the middle of 2015.

At September 26, 2014 and December 27, 2013, the Company had $820 of equipment and vehicles financed by capital leases. The Company recorded depreciation of $68 and $52 on these assets during the 13 weeks ended September 26, 2014 and September 27, 2013, respectively, and $205 and $159 on these assets during the 39 weeks ended September 26, 2014 and September 27, 2013, respectively.

Depreciation expense on equipment and leasehold improvements was $207 and $520 for the 13 weeks ended September 26, 2014 and September 27, 2013, respectively, and $1,477 and $1,597 for the 39 weeks ended September 26, 2014 and September 27, 2013, respectively.

Gross capitalized software costs were $6,820 at September 26, 2014 and $3,837 at December 27, 2013. Capitalized software is recorded net of accumulated amortization of $2,120 and $1,572 at September 26, 2014 and December 27, 2013, respectively. Depreciation expense on software was $375 and $55 for the 13 weeks ended September 26, 2014 and September 27, 2013, respectively, and $548 and $169 for the 39 weeks ended September 26, 2014 and September 27, 2013, respectively.

During the 13 weeks ended September 26, 2014 and September 27, 2013, the Company incurred interest expense of $1,896 and $2,238, respectively. The Company capitalized interest expense of $265 and $27, respectively, during the same periods. During the 39 weeks ended September 26, 2014 and September 27, 2013, the Company incurred interest expense of $6,063 and $5,598, respectively. The Company capitalized interest expense of $507 and $55, respectively, during the same periods. Capitalized interest related to the build outs of the new distribution facilities in Bronx, NY and Las Vegas, NV.

Note 8—Goodwill and Other Intangible Assets

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

Carrying amount as of December 28, 2012	$45,359
Goodwill increases	32,719
Foreign currency translation	(52)
Carrying amount as of December 27, 2013	78,026
Goodwill decreases	(455)
Foreign currency translation	(39)
Carrying amount as of September 26, 2014	$77,532

Other intangible assets consist of customer relationships, which are amortized over a period ranging from 6 to 13 years, trademarks, which are amortized over a period ranging from 1 to 20 years, and non-compete agreements, which are amortized over a period of 2 to 6 years. Other intangible assets consisted of the following at September 26, 2014 and December 27, 2013:

	Gross Carrying Amount	Accumulated Amortization	Net Amount
September 26, 2014			
Customer relationships	$29,302	$ (6,082)	$23,220
Non-compete agreements	7,131	(2,471)	4,660
Other amortizable intangibles	9,275	(748)	8,527
Trademarks	18,705	(2,164)	16,541
Total	$64,413	$ (11,465)	$52,948
December 27, 2013			
Customer relationships	$29,438	$ (4,199)	$25,239
Non-compete agreements	7,131	(1,412)	5,719
Other amortizable intangibles	9,275	(54)	9,221
Trademarks	18,804	(1,533)	17,271
Total	$64,648	$ (7,198)	$57,450

Amortization expense for other intangibles was $1,468 and $1,235 for the 13 weeks ended September 26, 2014 and September 27, 2013, respectively, and $4,405 and $3,537 for the 39 weeks ended September 26, 2014 and September 27, 2013, respectively.

Estimated amortization expense for other intangibles for the 52 weeks ended December 26, 2014 and each of the next four fiscal years and thereafter is as follows:

2014	$5,874
2015	5,850
2016	5,830
2017	5,794
2018	4,655
Thereafter	29,350
Total	$57,353

Note 9—Debt Obligations

Debt obligations as of September 26, 2014 and December 27, 2013 consisted of the following:

	September 26, 2014	December 27, 2013
Senior secured notes	$100,000	$ 100,000
Term loan	28,500	33,000
New Markets Tax Credit loan	11,000	11,000
Capital leases and financed software	5,317	3,714
Total debt obligations	144,817	147,714
Less: current installments	(7,252)	(6,867)
Total debt obligations excluding current installments	$137,565	$ 140,847

On April 25, 2012, Dairyland USA Corporation (“Dairyland”), The Chefs’ Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs’ Warehouse West Coast, LLC, The Chefs’ Warehouse of Florida, LLC (each, a “Borrower” and collectively, the “Borrowers”), the Company and Chefs’ Warehouse Parent, LLC (together with the Company, the “Guarantors”) entered into a senior secured credit facility (the “Credit Agreement”) with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A. (“Chase”), as Administrative Agent, and the other parties thereto. The Credit Agreement replaced the credit agreement that the Borrowers and the Guarantors entered into in connection with the Company’s initial public offering. On August 29, 2012, Michael’s Finer Meats Holdings, LLC and Michael’s Finer Meats, LLC each was added as a Guarantor under the Credit Agreement. On January 24, 2013, The Chefs’ Warehouse Midwest, LLC was added as a Guarantor under the Credit Agreement.

The Credit Agreement provided for a senior secured term loan facility (the “Term Loan Facility”) in the aggregate amount of up to $40,000 (the loans thereunder, the “Term Loans”) and a senior secured revolving loan facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Credit Facilities”) of up to an aggregate amount of $100,000 (the loans thereunder, the “Revolving Credit Loans”). The Credit Agreement also provided that the Borrowers could, at their option, increase the aggregate amount of borrowings under either the Revolving Credit Facility or the Term Loan Facility in an aggregate amount up to $40,000 (but in not less than $10,000 increments) (the “Accordion”) without the consent of any lenders not participating in such increase, subject to certain customary conditions and lenders committing to provide the increase in funding. The final maturity of the Term Loans and Revolving Credit Facility was April 25, 2017. Subject to adjustment for prepayments, the Company was required to make quarterly principal payments on the Term Loans on June 30, September 30, December 31 and March 31, with the first four quarterly payments equal to $1,000 per quarter and the last sixteen quarterly payments equal to $1,500 per quarter, with the remaining balance due upon maturity.

The Credit Facilities were secured by substantially all the assets of the Borrowers and the Guarantors with the exception of equity interests in and assets of DHP. Borrowings under the Credit Facilities bore interest at the Company's option of either (i) the alternate base rate (representing the greatest of (1) Chase's prime rate, (2) the federal funds effective rate for overnight borrowings plus 1/2 of 1% and (3) the Adjusted LIBO Rate for one month plus 2.50%) plus in each case the applicable margin of 0.50% for Revolving Credit Loans or Term Loans or (ii), in the case of Eurodollar Borrowings (as defined in the Credit Agreement), the Adjusted LIBO Rate plus the applicable margin of 3.0% for Revolving Credit Loans or Term Loans. The Credit Agreement also included financial covenants that required the Company to meet targeted leverage and fixed charge ratios.

On September 28, 2012, the Borrowers exercised the Accordion under the Credit Agreement in full to increase the aggregate commitments under the Revolving Credit Facility by $40,000. As a result of the Borrowers' exercise of the Accordion, borrowing capacity under the Revolving Credit Loans increased from $100,000 to $140,000. All other terms of the Credit Agreement were unchanged.

On April 26, 2012, DHP entered into a financing arrangement under the NMTC program under the Code, pursuant to which CLII provided to DHP the NMTC Loan to help fund DHP's expansion and build-out of its new Bronx, NY facility, which construction is required under the lease agreement related to such facility. The NMTC Loan is evidenced by a Mortgage Note, dated as of April 26, 2012 (the "Mortgage Note"), between DHP, as maker, and CLII, as payee. Under the Mortgage Note, DHP is obligated to pay CLII (i) monthly interest payments on the principal balance then outstanding and (ii) the entire unpaid principal balance then due and owing on April 26, 2017. Interest accrues under the Mortgage Note at 1.00% per annum for as long as DHP is not in default thereunder, which interest shall be calculated on the basis of the actual number of days elapsed over a year of 360 days.

On April 17, 2013, the Borrowers, the Guarantors and the lenders a party thereto entered into an Amendment and Restatement Agreement to amend and restate the Credit Agreement (the "Amended and Restated Credit Agreement"). On May 31, 2013, Qzina Specialty Foods North America (USA), Inc., QZ Acquisition (USA), Inc., The Chefs' Warehouse Pastry Division, Inc., Qzina Specialty Foods (Ambassador), Inc., Qzina Specialty Foods, Inc. (WA), and Qzina Specialty Foods, Inc. (FL) were added as Guarantors under the Amended and Restated Credit Agreement. On October 18, 2013, CW LV Real Estate LLC was added as a Guarantor under the Amended and Restated Credit Agreement. On January 10, 2014, Allen Brothers and The Great Steakhouse Steaks, LLC were added as Guarantors under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement amends and restates the Term Loan Facility and the Revolving Credit Facility. The Amended and Restated Credit Agreement provides for $36,000 in principal amount of Term Loans under the Term Loan Facility and up to an aggregate amount of $140,000 of Revolving Credit Loans under the Revolving Credit Facility. The sublimits for letters of credit and swingline loans under the Credit Facilities were unchanged. Unutilized commitments under the revolving credit facility portion of the Amended and Restated Credit Agreement are subject to a per annum fee of 0.35% to 0.45%, based on the Company's leverage ratio. A fronting fee of 0.25% per annum is payable on the face amount of each letter of credit issued under the Credit Facilities.

The final maturity of the Credit Facilities remains April 25, 2017. Subject to adjustment for prepayments, the Company is required to make quarterly principal payments on the Term Loan on June 30, September 30, December 31 and March 31 of each year, with each quarterly payment equal to $1,500, with the remaining balance due upon maturity.

After giving effect to the amendment and restatement thereof, borrowings under the Credit Facilities continue to be secured by all the assets of the Borrowers and Guarantors, with the exception of the equity interests in and assets of DHP, and borrowings thereunder will bear interest at the Company's option of either (i) the alternate base rate (representing the greatest of (1) Chase's prime rate, (2) the federal funds effective rate for overnight borrowings plus 1/2 of 1.00% and (3) the adjusted LIBO rate for one month plus 2.50%) plus in each case an applicable margin of from 1.75% to 2.25%, based on the Company's leverage ratio, or (ii) in the case of Eurodollar Borrowings (as defined in the Amended and Restated Credit Agreement), the adjusted LIBO rate plus an applicable margin of from 2.75% to 3.25%, based on the Company's leverage ratio. The LIBO rate is the rate for eurodollar deposits for a period equal to one, three or six months (as selected by the applicable Borrower) appearing on Reuters Screen LIBOR01 Page (or any successor or substitute page on such screen), at approximately 11:00 a.m. London time, two business days prior to the commencement of the applicable interest period. The Amended and Restated Credit Agreement also includes financial covenants that require the Company to meet targeted leverage and fixed charge ratios.

On April 17, 2013, the Borrowers issued $100,000 in guaranteed senior secured notes (the “Notes”) to The Prudential Insurance Company of America and certain of its affiliates (collectively the “Prudential Entities”), through a private placement transaction pursuant to a Note Purchase and Guarantee Agreement among the Borrowers, the Notes Guarantors (as defined below) and the Prudential Entities (the “Note Purchase and Guarantee Agreement”). The Notes bear an annual interest rate of 5.9% and mature in 2023. The Notes must be repaid in two equal installments of $50,000. The first payment is due on April 17, 2018. The second payment is due at maturity on April 17, 2023. The proceeds from the private placement of the Notes were used to repay borrowings under the Revolving Credit Facility. The Notes have financial covenants that are substantially similar to the financial covenants for the Amended and Restated Credit Agreement and are guaranteed by the Guarantors including those of the Company’s subsidiaries added as Guarantors following the issuance of the Notes (collectively, the “Notes Guarantors”).

On July 23, 2014, the Borrowers, Chase and the lenders that are party to the Amended and Restated Credit Agreement entered into Amendment No. 1 (“Amendment No. 1 to the Credit Agreement”) to the Amended and Restated Credit Agreement to permit a subsidiary of the Company to incur up to $15,000 of permitted indebtedness and associated liens to obtain construction and permit mortgage financing for a new warehouse facility in Las Vegas, NV and to increase the basket for additional indebtedness that is not otherwise permitted by the terms of the Amended and Restated Credit Agreement from $5,000 to $10,000. Each of the Guarantors consented to the Borrowers’ entering into Amendment No. 1 to the Credit Agreement.

On July 23, 2014, the Borrowers, the Notes Guarantors and the Prudential Entities entered into Amendment No. 1 to the Note Purchase and Guarantee Agreement to permit a subsidiary of the Company to incur up to $15,000 of indebtedness and associated liens to obtain construction and permit mortgage financing for a new warehouse in Las Vegas, NV and to increase the basket for additional indebtedness that is not otherwise permitted by the terms of the Note Purchase and Guarantee Agreement from $5,000 to $10,000.

On November 4, 2014, the Borrowers, Chase and the lenders that are party to the Amended and Restated Credit Agreement entered into Amendment No. 2 (“Amendment No. 2 to the Credit Agreement”) to the Amended and Restated Credit Agreement to, among other things, eliminate the Company’s requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Amended and Restated Credit Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth. Each of the Guarantors consented to the Borrowers’ entering into Amendment No. 2 to the Credit Agreement.

On November 4, 2014, the Borrowers, the Notes Guarantors and the Prudential Entities entered into Amendment No. 2 (“Amendment No. 2 to the Note Purchase and Guarantee Agreement”) to the Note Purchase and Guarantee Agreement to, among other things, eliminate the Company’s requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Note Purchase and Guarantee Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth.

As of September 26, 2014, the Borrowers and Guarantors were in compliance with all debt covenants under the Credit Agreement, the Notes and the related Note Purchase and Guarantee Agreement (in each case as amended by

Amendment No. 2 to the Credit Agreement and Amendment No. 2 to the Note Purchase and Guarantee Agreement), DHP was in compliance with all debt covenants under the NMTC Loan and the Company had reserved $4,845 of the Revolving Credit Facility for the issuance of letters of credit. As of September 26, 2014, funds totaling $135,155 were available for borrowing under the Revolving Credit Facility.

Note 10—Stockholders' Equity

During the first 39 weeks of 2014, the Company granted 69,604 restricted stock awards ("RSAs") to its employees at a weighted average grant date fair value of $20.60 each. Of these awards, 27,201 were performance-based grants. The Company recognized no expense on the performance-based grants during the first 39 weeks of 2014 as it is not on track to achieve the performance targets. The remaining awards were time-based grants which will vest over two to four years. During the 13 and 39 weeks ended September 26, 2014, the Company recognized expense totaling $117 and $201, respectively, on these time-based RSAs.

During the 13 and 39 weeks ended September 26, 2014, the Company recognized $197 and $831, respectively, of expense for RSAs issued in prior years.

At September 26, 2014, the Company had 395,068 of unvested RSAs outstanding. At September 26, 2014, the total unrecognized compensation cost for these unvested RSAs was $6,393, and the weighted-average remaining useful life was approximately 13 months. Of this total, $2,669 related to RSAs with time-based vesting provisions and $3,724 related to RSAs with performance-based vesting provisions. At September 26, 2014, the weighted-average remaining useful lives were approximately 17 months for time-based vesting RSAs and 9 months for the performance-based vesting RSAs. No compensation expense related to the Company's RSAs has been capitalized.

As of September 26, 2014, there were 1,058,668 shares available for grant under the Company's 2011 Omnibus Equity Incentive Plan.

Note 11—Related Parties

The Company leases two warehouse facilities from related parties. These facilities are 100% owned by entities controlled by certain of the Company's current and former directors and officers and current stockholders and are deemed to be affiliates. Expenses related to these facilities totaled $384 and $1,152, respectively, during the 13 and 39 weeks ended September 26, 2014 and September 27, 2013. One of the facilities is a distribution facility leased by Chefs' Warehouse Mid-Atlantic, LLC for which we recently extended the lease expiration date to September 30, 2019. The other facility is a distribution facility leased by Dairyland from The Chefs' Warehouse Leasing Co., LLC. The Chefs' Warehouse Leasing Co., LLC leases the distribution center from the New York City Industrial Development Agency. In connection with this sublease arrangement, Dairyland and two of the Company's other subsidiaries are required to act as conditional guarantors of The Chefs' Warehouse Leasing Co., LLC's mortgage obligation on the distribution center. The mortgage payoff date is December 2029 and the potential obligation under this guarantee totaled $9,484 at September 26, 2014. On July 1, 2005, the Company entered into a consent and release agreement with the mortgagee in which the entity guarantors were conditionally released from their respective obligations. The Company and the entity guarantors continue to be in compliance with the specified conditions. The Chefs' Warehouse Leasing Co., LLC has the ability to opt out of its lease agreement with the New York City Industrial Development Agency by giving 60 days' notice. This action would cause the concurrent reduction in the term of the sublease with Dairyland to December 2014.

One of our non-employee directors, Stephen Hanson, was the President and a 50% owner of a New York City-based multi-concept restaurant operator holding company until December 2013. Certain subsidiaries of this holding company are customers of the Company and its subsidiaries that purchased approximately $835 and $916, respectively, of products during the 13 weeks ended September 26, 2014 and September 27, 2013 and approximately $2,791 and $2,613, respectively, of products during the 39 weeks ended September 26, 2014 and September 27, 2013.

Each of Christopher Pappas and John Pappas owns 8.33% of a New York City-based restaurant customer of the Company and its subsidiaries that purchased approximately $29 and $44, respectively, of products from the Company during the 13 weeks ended September 26, 2014 and September 27, 2013 and approximately $113 and $146, respectively, of products during the 39 weeks ended September 26, 2014 and September 27, 2013. Messrs. C. Pappas and J. Pappas have no other interest in the restaurant other than these equity interests and are not involved in the day-to-day operation or management of this restaurant.

Note 12—Subsequent Event

On November 3, 2014, the Company finalized the purchase price of Allen Brothers with the prior owners. This will result in the Company receiving approximately $1,750 from escrow and $397 directly from the prior owners. These reimbursements have not been reflected in the financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided as a supplement to the accompanying condensed consolidated financial statements and footnotes to help provide an understanding of our financial condition, changes in our financial condition and results of operations. The following discussion should be read in conjunction with information included in our Annual Report on Form 10-K filed with the SEC on March 12, 2014. Unless otherwise indicated, the terms "Company", "Chefs' Warehouse", "we", "us" and "our" refer to The Chefs' Warehouse, Inc. and its subsidiaries. All dollar amounts are in thousands.

OVERVIEW

We are a premier distributor of specialty foods in eight of the leading culinary markets in the United States. We offer more than 30,000 SKUs, ranging from high-quality specialty foods and ingredients to basic ingredients and staples and center-of-the-plate proteins. We serve more than 20,000 customer locations, primarily located in our 14 geographic markets across the United States and Canada, and the majority of our customers are independent restaurants and fine dining establishments. As a result of our acquisition of certain of the assets of Allen Brothers, we also sell certain of our center-of-the-plate products directly to consumers.

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

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

RECENT ACQUISITIONS

On December 11, 2013, the Company's wholly owned subsidiary, Allen Brothers, acquired substantially all the assets of Allen Brothers, Inc. (and its subsidiaries) based in Chicago, Illiniois. Founded in 1893, Allen Brothers is a leading processor and distributor of premium quality meats to nearly 400 of the nation's finest restaurants, hotels, casinos and country clubs. In addition, Allen Brothers supplies many of those same high quality products to over 100,000 consumers through a direct mail and e-commerce platform. The total purchase price for the business is expected to be approximately $33,139 (subject to customary working capital adjustments), of which approximately $23,939 was paid at closing with cash proceeds from the Company's September 2013 common stock offering. The remaining $9,200 represents pension withdrawal liabilities of $2,878 assumed by the Company and contingent earnout consideration with a present value of $6,322 as of the closing, to be paid upon the achievement of certain EBTIDA and revenue milestones over the four-year period following the closing.

On May 1, 2013, the Company acquired 100% of the equity interests of Qzina, a British Columbia, Canada corporation based in Pompano Beach, Florida. Founded in 1982, Qzina is a leading supplier of gourmet chocolate, dessert and pastry products dedicated to the pastry professional. Qzina currently supplies more than 3,000 products to some of the finest restaurants, bakeries, patisseries, chocolatiers, hotels and cruise lines throughout the United States and Canada. The total purchase price for Qzina was approximately $31,396, net of $578 cash, and was funded with borrowings under the revolving credit facility portion of our Amended and Restated Credit Agreement. In the third quarter of 2014, the Company received a settlement of $491 from the prior owners of Qzina directly related to disputes regarding the working capital adjustment. The Company reduced goodwill by $400 and used $91 to offset legal fees that were incurred in connection with the dispute.

On December 31, 2012, the Company acquired substantially all of the assets of Queensgate, a foodservice distributor based in Cincinnati, Ohio. Queensgate strengthens the Company’s foothold in the Ohio Valley and provides a platform on which to leverage the Michael’s acquisition completed in August 2012. The purchase price for Queensgate was approximately $21,934 and was funded with borrowings under the revolving credit facility portion of the Credit Agreement that we entered into in April 2012. The purchase price may be increased by up to $2,400 based upon the achievement of certain EBITDA milestones in fiscal 2013 and 2014. Queensgate did not meet the targeted EBITDA thresholds requiring payment for fiscal 2013 results, and the liability for this portion of the earnout was taken into income during 2013.

Our Growth Strategies and Outlook

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

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

Our continued profitable growth has allowed us to improve upon our organization’s infrastructure, open new distribution facilities and pursue selective acquisitions. Over the last several years, we have increased our distribution capacity to approximately 674,000 square feet in twenty distribution facilities and have invested significantly in infrastructure and management in the second half of fiscal 2013 and the first nine months of fiscal 2014.

Key Factors Affecting Our Performance

Due to our focus on menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, culinary schools, bakeries, patisseries, chocolatiers, cruise lines, casinos and specialty food stores, our results of operations are materially impacted by the success of the “food-away-from-home” industry in the United States, which is materially impacted by general economic conditions, weather, discretionary spending levels and consumer confidence. When economic conditions deteriorate or periods of severe weather persist, our customers’ businesses are negatively impacted as fewer people eat away-from-home and those that do spend less money. As economic conditions begin to improve, our customers’ businesses historically have likewise improved, which contributes to improvements in our business.

Food price costs also significantly impact our results of operations. Food price inflation, like that which we experienced in the first nine months of 2014 and portions of 2013, may increase the dollar value of our sales because many of our products are sold at our cost plus a percentage markup. When the rate of inflation declines or we experience deflation, as we experienced during portions of 2012, the dollar value of our sales may fall despite our unit sales remaining constant or growing. For those of our products that we price on a fixed fee-per-case basis, our gross profit margins may be negatively affected in an inflationary environment, even though our gross revenues may be positively impacted. While we cannot predict whether inflation will continue at current levels, prolonged periods of inflation leading to cost increases above levels that we are able to pass along to our customers, either overall or in certain product categories, may have a negative impact on us and our customers, as elevated food costs can reduce consumer spending in the food-away-from-home market and may negatively impact our sales, gross margins and earnings.

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

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

RESULTS OF OPERATIONS

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

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of Sales	75.6 %	74.2 %	75.5 %	74.4 %
Gross Profit	24.4 %	25.8 %	24.5 %	25.6 %
Operating Expenses	20.0 %	20.2 %	21.0 %	20.1 %
Operating Income	4.4 %	5.6 %	3.5 %	5.5 %
Other Expense:				
Interest Expense	0.9 %	1.4 %	1.0 %	1.2 %
Total Other Expense	0.9 %	1.4 %	1.0 %	1.2 %
Income Before Income Taxes	3.5 %	4.2 %	2.5 %	4.3 %
Provision for Income Taxes	1.4 %	1.7 %	1.0 %	1.8 %
Net Income	2.1 %	2.5 %	1.5 %	2.5 %

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

13 Weeks Ended September 26, 2014 Compared to 13 Weeks Ended September 27, 2013

Net Sales

Our net sales for the 13 weeks ended September 26, 2014 increased approximately 22.0%, or $37,489, to $208,070 from $170,581 for the 13 weeks ended September 27, 2013. The increase in net sales was primarily the result of the acquisition of Allen Brothers, as well as organic sales growth in the Company’s other businesses. Allen Brothers contributed approximately $19,513, or 11.4%, to net sales growth for the quarter. Organic growth contributed approximately $17,976, or 10.6%, to our year over year growth. Inflation continued to increase sequentially during the quarter, particularly in the dairy, cheese and protein categories, and was approximately 5.6% for the 13 weeks ended September 26, 2014 compared with 2.7% for the comparable period in 2013.

Gross Profit

Gross profit increased approximately 15.3%, or $6,736, to $50,693 for the 13 weeks ended September 26, 2014, from $43,957 for the 13 weeks ended September 27, 2013. Gross profit margin decreased approximately 143 basis points to 24.4% from 25.8% for the third quarter of 2014. This decrease was due in large part to the shift in product mix toward more proteins, as well as the performance of Allen Brothers. Gross profit margins were also negatively impacted by inflation, most significantly in the dairy category, a portion of which we were unable to pass through to customers.

Operating Expenses

Total operating expenses increased by approximately 20.7%, or $7,138, to $41,660 for the 13 weeks ended September 26, 2014 from $34,522 for the 13 weeks ended September 27, 2013. As a percentage of net sales, operating expenses were 20.0% in the third quarter of 2014 compared to 20.2% in the third quarter of 2013. The decrease in our operating expense ratio is primarily attributable to the recovery of approximately $1,500 related to a settlement with the former owners of Michael’s associated with the inventory issues we previously experienced at Michael’s, offset by higher net shipping costs and catalog promotion costs related to the Company’s Allen Brothers subsidiary and increased investments in information technology initiatives.

Operating Income

Operating income decreased by approximately 4.3%, or $402, to $9,033 for the 13 weeks ended September 26, 2014 from $9,435 for the 13 weeks ended September 27, 2013. This is reflective of the increase in gross profit offset by increased operating expenses as discussed above. As a percentage of net sales, operating income decreased to 4.4% for the 13 weeks ended September 26, 2014 from 5.6% for the 13 weeks ended September 27, 2013.

Interest Expense

Total interest expense decreased $432 to $1,896 for the 13 weeks ended September 26, 2014 from $2,328 for the 13 weeks ended September 27, 2013. This decrease can be attributed to increased capitalized interest on the build out of our new distribution centers in Bronx, NY and Las Vegas, NV.

Provision for Income Taxes

For the 13 weeks ended September 26, 2014, we recorded an effective income tax rate of 41.0%. For the 13 weeks ended September 27, 2013, our effective income tax rate was 41.5%.

Net Income

Reflecting the factors described above, net income increased $47 to $4,207 for the 13 weeks ended September 26, 2014, compared to net income of $4,160 for the 13 weeks ended September 26, 2013.

39 Weeks Ended September 26, 2014 Compared to 39 Weeks Ended September 27, 2013

Net Sales

Our net sales for the 39 weeks ended September 26, 2014 increased approximately 26.7%, or $128,239, to $608,397 from $480,158 for the 39 weeks ended September 27, 2013. The increase in net sales was primarily the result of the acquisitions of Qzina and Allen Brothers, as well as organic sales growth. These acquisitions contributed approximately $81,917, or 17.1%, to net sales growth for the 39 week period. Organic growth contributed the remaining approximately $46,322, or 9.7%, of total net sales growth. Inflation increased meaningfully for the 39 weeks ended September 26, 2014, particularly in the protein, dairy and cheese categories, and was approximately 5.4% for the 39 weeks ended September 26, 2014 compared to 3.3% for the comparable period in fiscal 2013.

Gross Profit

Gross profit increased approximately 21.2%, or $26,073, to $149,163 for the 39 weeks ended September 26, 2014, from $123,090 for the 39 weeks ended September 27, 2013. Gross profit margin decreased approximately 114 basis points to 24.5% from 25.6% for the 39 week period ended September 26, 2014. This decrease in profit margin was due in large part to the shift in product mix toward more proteins. In addition, we experienced significant inflation, particularly in the protein category at our Allen Brothers subsidiary, a portion of which we were unable to pass on to our customers.

Operating Expenses

Total operating expenses increased by approximately 32.2%, or $31,123, to $127,824 for the 39 weeks ended September 26, 2014 from $96,701 for the 39 weeks ended September 27, 2013. As a percentage of net sales, operating expenses were 21.0% in the first 39 weeks of 2014 compared to 20.1% in the first 39 weeks of 2013. The increase in our operating expense ratio is primarily attributable to higher net shipping costs and catalog promotion costs related to the Company’s Allen Brothers subsidiary, increased investments in management infrastructure and information technology initiatives and integration costs related to the Company’s recently acquired businesses. These increases were offset in part by the recovery of approximately $1,500 related to the settlement with the prior owners of Michael’s of a dispute associated with the inventory issues we previously experienced at Michael’s.

Operating Income

Operating income decreased by approximately 19.1%, or $5,050, to $21,339 for the 39 weeks ended September 26, 2014 from $26,389 for the 39 weeks ended September 27, 2013. As a percentage of net sales, operating income decreased to 3.5% for the 39 weeks ended September 26, 2014 from 5.5% for the 39 weeks ended September 27, 2013. The decrease in operating income as a percentage of net sales was driven by lower gross profit margin and higher operating expenses as discussed above.

Interest Expense

Total interest expense increased $465 to $6,063 for the 39 weeks ended September 26, 2014 from $5,598 for the 39 weeks ended September 27, 2013. This increase can be attributed to increased interest expense due to higher levels of debt related to the financing of our acquisitions as well as the higher interest rate on our $100,000 of senior secured notes.

Provision for Income Taxes

For the 39 weeks ended September 26, 2014, we recorded an effective income tax rate of 41.0%. For the 39 weeks ended September 27, 2013, our effective income tax rate was 41.5%.

Net Income

Reflecting the factors described above, net income decreased $3,138 to $9,016 for the 39 weeks ended September 26, 2014, compared to net income of $12,154 for the 39 weeks ended September 27, 2013.

LIQUIDITY AND CAPITAL RESOURCES

We finance our day-to-day operations and growth primarily with cash flows from operations, borrowings under our senior secured credit facilities, operating leases, trade payables and bank indebtedness. In the second quarter of fiscal 2013, we also issued $100,000 of senior secured notes, the proceeds of which we used to repay borrowings under the revolving credit facility portion of our senior secured credit facilities. In the third quarter of fiscal 2013 we completed a secondary offering of 3,800,000 shares of our common stock which resulted in net proceeds to us of approximately $75,037 after deducting underwriters' fees and commissions and transaction expenses. We used a portion of the proceeds from the offering to repay all of our then-outstanding borrowings under the revolving credit facility portion of our senior secured credit facilities, and we subsequently used $23,939 of these proceeds to finance our acquisition of Allen Brothers. We have also used a portion of the proceeds to make principal payments on our Term Loan (as defined below). The remaining portion of the net proceeds is currently being held as cash and cash equivalents for use in general corporate purposes, including as possible consideration for future acquisitions. We believe that our cash on hand and available credit through our existing revolving credit facility as discussed below is sufficient for our operations and planned capital expenditures over the next twelve months. Depending on our acquisition pipeline and related opportunities, we may need to obtain additional debt or equity financing, which may include longer-term, fixed-rate debt, in order to complete those acquisitions.

On April 25, 2012, Dairyland USA Corporation, The Chefs' Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs' Warehouse West Coast, LLC, The Chefs' Warehouse of Florida, LLC (each a "Borrower" and collectively, the "Borrowers"), the Company and Chefs' Warehouse Parent, LLC (together with the Company, the "Guarantors") entered into a senior secured credit facility (the "Credit Agreement") with the lenders from time to time party thereto, JPMorgan Chase Bank, N.A. ("Chase"), as administrative agent, and the other parties thereto. On August 29, 2012, Michael's Finer Meats Holdings, LLC and Michael's Finer Meats, LLC were each added as a Guarantor under the Credit Agreement. On January 24, 2013, The Chefs' Warehouse Midwest, LLC was added as a Guarantor under the Credit Agreement.

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

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

For more information regarding the NMTC Loan, see Note 9 to the consolidated financial statements appearing elsewhere in this report.

On April 17, 2013, the Borrowers, the Guarantors and the lenders a party thereto entered into an Amendment and Restatement Agreement to amend and restate the Credit Agreement (the “Amended and Restated Credit Agreement”). The Amended and Restated Credit Agreement provides for a senior secured term loan facility (the “Term Loan Facility”) in the aggregate amount of up to $36,000 (the loans thereunder, the “Term Loans”) and a senior secured revolving loan facility (the “Revolving Credit Facility” and, together with the Term Loan Facility, the “Credit Facilities”) of up to an aggregate amount of $140,000 (the loans thereunder, the “Revolving Credit Loans”), of which up to $5,000 is available for letters of credit and up to $3,000 is available for short-term borrowings on a swingline basis. Unutilized commitments under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement are subject to a per annum fee of from 0.35% to 0.45% based on the Leverage Ratio (as defined below). A fronting fee of 0.25% per annum is payable on the face amount of each letter of credit issued under the Credit Facilities. On May 31, 2013, Qzina Specialty Foods North America (USA), Inc., QZ Acquisition (USA), Inc., The Chefs’ Warehouse Pastry Division, Inc., Qzina Specialty Foods (Ambassador), Inc., Qzina Specialty Foods, Inc. (WA), and Qzina Specialty Foods, Inc. (FL) were added as Guarantors under the Amended and Restated Credit Agreement. On October 18, 2013, CW LV Real Estate LLC was added as a Guarantor under the Amended and Restated Credit Agreement. On January 10, 2014, Allen Brothers 1893, LLC and The Great Steakhouse Steaks, LLC were added as Guarantors under the Amended and Restated Credit Agreement. On July 23, 2014, the Borrowers, Chase and the lenders from time to time party thereto entered into Amendment No. 1 (“Amendment No. 1”) to the Amended and Restated Credit Agreement, which amends the Amended and Restated Credit Agreement to (i) permit a subsidiary of the Company to incur up to $15,000 of permitted indebtedness and associated liens to obtain construction and permit mortgage financing for a new warehouse facility in Las Vegas, NV and (ii) increase the basket for additional indebtedness that is not otherwise permitted by the terms of the Amended and Restated Credit Agreement from $5,000 to $10,000. Each of the Guarantors consented to the Borrowers’ entering into Amendment No. 1 to the Amended and Restated Credit Agreement.

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

Borrowings under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement have been used, and are expected to be used, for capital expenditures, permitted acquisitions, working capital and general corporate purposes of the Borrowers. The commitments under the Revolving Credit Facility expire on April 25, 2017 and any Revolving Credit Loans then outstanding will be payable in full at that time. As of September 26, 2014, we had $135,155 of availability under the Revolving Credit Facility portion of the Amended and Restated Credit Agreement.

Borrowings under the Amended and Restated Credit Agreement bear interest at our option at either (i) the alternate base rate (representing the greatest of (1) Chase's prime rate, (2) the federal funds effective rate for overnight borrowings plus 1/2 of 1.00% and (3) the adjusted LIBO rate for one month plus 2.50%) plus in each case an applicable margin of from 1.75% to 2.25%, based on the Leverage Ratio (as defined below), or (ii) in the case of Eurodollar Borrowings (as defined in the Amended and Restated Credit Agreement), the adjusted LIBO rate plus an applicable margin of from 2.75% to 3.25%, based on the Leverage Ratio. The LIBO rate is the rate for eurodollar deposits for a period equal to one, three or six months (as selected by the applicable Borrower) appearing on Reuters Screen LIBOR01 Page (or any successor or substitute page on such screen), at approximately 11:00 a.m. London time, two business days prior to the commencement of the applicable interest period.

The Amended and Restated Credit Agreement includes financial covenants that require (i) the ratio of our consolidated EBITDA (as defined in the Amended and Restated Credit Agreement) minus the unfinanced portion of capital expenditures to our consolidated Fixed Charges (as defined in the Amended and Restated Credit Agreement) on a trailing twelve month basis as of the end of each of our fiscal quarters to not be less than 1.25 to 1.00 for the quarterly periods ending September 30, 2014 and thereafter and (ii) the ratio of our consolidated Total Indebtedness (as defined in the Amended and Restated Credit Agreement) to our consolidated EBITDA (the "Leverage Ratio") for the then-trailing twelve months to not be greater than (A) 3.75 to 1.00 for any fiscal quarter ending in the period from March 31, 2014 through December 31, 2014 and (B) 3.50 to 1.00 for any fiscal quarter ending March 31, 2015 and thereafter. On November 4, 2014, the Borrowers, Chase and the lenders that are party to the Amended and Restated Credit Agreement entered into Amendment No. 2 ("Amendment No. 2 to the Credit Agreement") to the Amended and Restated Credit Agreement to, among other things, eliminate the Company's requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Amended and Restated Credit Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth. Each of the Guarantors consented to the Borrowers' entering into Amendment No. 2 to the Credit Agreement.

On April 17, 2013, the Borrowers issued $100,000 principal amount of 5.90% Guaranteed Senior Secured Notes due 2023 (the "Notes"). The Notes are guaranteed by the Guarantors including Michael's Finer Meats, LLC, Michael's Finer Meats Holdings, LLC and The Chefs' Warehouse Midwest, LLC (collectively, the "Notes Guarantors"). The Notes, which rank pari passu with the Borrowers' and Notes Guarantors' obligations under the Credit Facilities, were issued to The Prudential Insurance Company of America and certain of its affiliates (collectively, the "Prudential Entities") pursuant to a note purchase and guarantee agreement dated as of April 17, 2013 (the "Note Purchase and Guarantee Agreement") among the Borrowers, the Notes Guarantors and the Prudential Entities. The net proceeds from the issuance of the Notes were used to repay then-outstanding borrowings under the Revolving Credit Facility. On May 31, 2013, Qzina Specialty Foods North America (USA), Inc., QZ Acquisition (USA), Inc., The Chefs' Warehouse Pastry Division, Inc., Qzina Specialty Foods (Ambassador), Inc., Qzina Specialty Foods, Inc. (WA), and Qzina Specialty Foods, Inc. (FL) were added as Guarantors under the Notes. On October 18, 2013, CW LV Real Estate LLC was added as a Guarantor under the Notes. On January 10, 2014, Allen Brothers 1893, LLC and The Great Steakhouse Steaks, LLC were added as Guarantors under the Notes.

On July 23, 2014, the Borrowers, the Notes Guarantors and the Prudential Entities entered into an Amendment No. 1 to the Note Purchase and Guarantee Agreement to (i) permit a subsidiary of the Company to incur up to $15,000 of indebtedness and associated liens to obtain construction and permit mortgage financing for a new warehouse in Las Vegas, NV and (ii) increase the basket for additional indebtedness that is not otherwise permitted by the terms of the Note Purchase and Guarantee Agreement from $5,000 to $10,000. On November 4, 2014, the Borrowers, the Notes Guarantors and the Prudential Entities entered into Amendment No. 2 to the Note Purchase and Guarantee Agreement to, among other things, eliminate the Company’s requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Note Purchase and Guarantee Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth.

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

The Note Purchase and Guarantee Agreement contains financial covenants related to leverage and fixed charges that are the same as the corresponding provisions in the Amended and Restated Credit Agreement.

We believe our capital expenditures, excluding cash paid for acquisitions, for fiscal 2014 will be approximately $32,260, of which $5,578 has been funded with the restricted cash from the NMTC Loan and $2,304 will be funded through a software financing arrangement. The significant increase in projected capital expenditures in fiscal 2014 when compared to 2013 is being driven by the renovation and expansion of our new Bronx, NY distribution facility, the renovation and expansion of our new Las Vegas, NV distribution facility, implementation of our JD Edwards ERP system which we believe will be completed in fiscal 2014 and our building out of our new Chicago, IL distribution facility. Recurring capital expenditures will be financed with cash generated from operations and borrowings under our Revolving Credit Facility. Our planned capital projects will provide both new and expanded facilities and improvements to our technology that we believe will produce increased efficiency and the capacity to continue to support the growth of our customer base. Future investments and acquisitions will be financed through either internally generated cash flow, borrowings under our senior secured credit facilities in place at the time of the potential acquisition or issuance of equity or debt securities, including, but not limited to, longer-term, fixed-rate debt securities and shares of our common stock.

Net cash provided by operations was $628 for the 39 weeks ended September 26, 2014, a decrease of $14,120 from the $14,748 provided by operations for the 39 weeks ended September 27, 2013. The primary reasons for the decrease in net cash provided by operations were decreased net income of $3,138 and an increase in cash used for working capital of $11,060. The increase in cash used for working capital is due to increased cash used for receivables of $10,346, an increase in cash used for inventory of $4,751 and an increase in cash used for payables of $1,248, offset by an increase in cash provided by prepaids and other assets of $5,285.

Net cash used in investing activities was $15,325 for the 39 weeks ended September 26, 2014, a decrease of $44,699 from the net cash used in investing activities of $60,024 for the 39 weeks ended September 27, 2013. The decrease in net cash used in investing activities was due to the fact that we had no acquisitions in the 39 weeks ended September 26, 2014, offset by increased capital expenditures of $10,115.

Net cash used in financing activities was $119 for the 39 weeks ended September 26, 2014, a decrease of $99,827 from the $99,708 provided by financing activities for the 39 weeks ended September 27, 2013. Proceeds from our Notes offering and secondary common stock offering in 2013 were used to pay off our revolving credit facility and fund the Qzina acquisition and make principal payments on our Term Loan.

Seasonality

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

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

Inflation

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

Off-Balance Sheet Arrangements

As of September 26, 2014, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

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

Allowance for Doubtful Accounts

We analyze customer creditworthiness, accounts receivable balances, payment history, payment terms and historical bad debt levels when evaluating the adequacy of our allowance for doubtful accounts. In instances where a reserve has been recorded for a particular customer, future sales to the customer are either conducted using cash-on-delivery terms or the account is closely monitored so that agreed-upon payments are received prior to orders being released. A failure to pay results in held or cancelled orders. Our accounts receivable balance was $88,299 and $76,413, net of the allowance for doubtful accounts of $4,766 and $3,642, as of September 26, 2014 and December 27, 2013, respectively.

Inventory Valuation

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

Valuation of Goodwill and Intangible Assets

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

When analyzing whether to aggregate the above geographical components into one reporting unit, the Company considers whether each geographical component has similar economic characteristics. The Company has evaluated the economic characteristics of its different geographic markets, including its recently acquired businesses, along with the similarity of the operations and margins, nature of the products, type of customer and methods of distribution of products and the regulatory environment in which the Company operates and concluded that the geographical components continue to be one reporting unit.

In 2013, our annual assessment indicated that we were not at risk of failing step one of the goodwill impairment test and no impairment of goodwill existed, as our fair value exceeded our carrying value. We have noted no indicators of impairment in the 39 weeks ended September 26, 2014. Total goodwill as of September 26, 2014 and December 27, 2013 was $77,532 and $78,026, respectively.

Intangible assets with finite lives are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Cash flows expected to be generated by the related assets are estimated over the assets’ useful lives based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow model. There have been no events or changes in circumstances during 2014 or 2013 indicating that the carrying value of our finite-lived intangible assets are not recoverable. Total finite-lived intangible assets as of September 26, 2014 and December 27, 2013 were $52,948 and $57,450, respectively.

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

Vendor Rebates and Other Promotional Incentives

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

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

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

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Self-Insurance Reserves

Effective October 1, 2011, we began maintaining a partially self-insured group medical program. The program contains individual as well as aggregate stop loss thresholds. The amounts in excess of the self-insured levels are fully insured by third party insurers. Liabilities associated with this program are estimated in part by considering historical claims experience and medical cost trends. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

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

Income Taxes

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

As of September 26, 2014, we had an aggregate $33,544 of indebtedness outstanding under the Revolving Credit Facility, Term Loan Facility and software financing agreement that bore interest at variable rates. A 100 basis point increase in market interest rates would decrease our after tax earnings by approximately $198 per annum, holding other variables constant.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal period that may have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K filed with the SEC on March 12, 2014.

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

	Total Number of Shares Repurchased[(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
June 28, 2014 to July 25, 2014	6,810	$ 19.73	—	—
July 26, 2014 to August 22, 2014	2,124	$ 17.51	—	—
August 23, 2014 to September 26, 2014	2,210	$ 18.55	—	—
Total	11,144	$ 19.07	—	—

(1) During the thirteen weeks ended September 26, 2014, we withheld 11,144 shares to satisfy tax withholding requirements upon the vesting of restricted shares of our common stock awarded to our officers and key employees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

On November 4, 2014, the Borrowers, Chase and the lenders that are party to the Amended and Restated Credit Agreement entered into Amendment No. 2 to the Credit Agreement to, among other things, eliminate the Company’s requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Amended and Restated Credit Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth. Each of the Guarantors consented to the Borrowers’ entering into Amendment No. 2 to the Credit Agreement.

On November 4, 2014, the Borrowers, the Notes Guarantors and the Prudential Entities entered into Amendment No. 2 to the Note Purchase and Guarantee Agreement to, among other things, eliminate the Company’s requirement to achieve a certain minimum Fixed Charge Coverage Ratio as of September 30, 2014 and to provide that the Fixed Charge Coverage Ratio definition in the Note Purchase and Guarantee Agreement will be appropriately amended to take into account the significant investments the Company has made, and expects to continue to make, in its business to support its growth.

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ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Amendment No. 1, dated as of July 23, 2014, to the Amended and Restated Credit Agreement dated as of April 17, 2013, by and among Dairyland USA Corporation, The Chefs' Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs' Warehouse West Coast, LLC, and The Chefs' Warehouse of Florida, LLC, as Borrowers, the other Loan Parties thereto, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 28, 2014).
10.2	Amendment No. 1, dated as of July 23, 2014, to the Note Purchase and Guarantee Agreement, dated as of April 17, 2013, by and among Dairyland USA Corporation, The Chefs' Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs' Warehouse West Coast, LLC, and The Chefs' Warehouse of Florida, LLC, as Issuers, The Chefs' Warehouse, Inc., Chefs' Warehouse Parent, LLC, The Chefs' Warehouse Midwest, LLC, Michael's Finer Meats Holdings, LLC, and Michael's Finer Meats, LLC, as the Initial Guarantors, The Prudential Insurance Company of America, Pruco Life Insurance Company, Prudential Arizona Reinsurance Captive Company, and Prudential Retirement Insurance and Annuity Company (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on July 28, 2014).
10.3	Amendment No. 2, dated as of November 4, 2014, to the Amended and Restated Credit Agreement dated as of April 17, 2013, by and among Dairyland USA Corporation, The Chefs’ Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs’ Warehouse West Coast, LLC, and The Chefs’ Warehouse of Florida, LLC, as Borrowers, the other Loan Parties thereto, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent.
10.4	Amendment No. 2, dated as of November 4, 2014, to the Note Purchase and Guarantee Agreement, dated as of April 17, 2013, by and among Dairyland USA Corporation, The Chefs’ Warehouse Mid-Atlantic, LLC, Bel Canto Foods, LLC, The Chefs’ Warehouse West Coast, LLC, and The Chefs’ Warehouse of Florida, LLC, as Issuers, The Chefs’ Warehouse, Inc., Chefs’ Warehouse Parent, LLC, The Chefs’ Warehouse Midwest, LLC, Michael’s Finer Meats Holdings, LLC, and Michael’s Finer Meats, LLC, as the Initial Guarantors, The Prudential Insurance Company of America, Pruco Life Insurance Company, Prudential Arizona Reinsurance Captive Company, and Prudential Retirement Insurance and Annuity Company.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURE

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

	THE CHEFS' WAREHOUSE, INC. **(Registrant)**
November 5, 2014	/s/ John D. Austin
Date	**John D. Austin** Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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