

Chefs' Warehouse, Inc.  
Form 10-Q  
November 05, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 27, 2013**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**20-3031526**  
**(I.R.S. Employer**  
**Identification No.)**

**100 East Ridge Road**

**Ridgefield, Connecticut**  
**(Address of principal executive offices)**

**06877**  
**(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 November 1, 2013: 25,016,088

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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 in 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 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; 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; and other risks and uncertainties included under the heading Risk Factors in our Annual Report on Form 10-K filed on March 13, 2013 with the Securities and Exchange Commission (the SEC) and under Part II, Item 1A of this Quarterly Report on Form 10-Q and the Company's Quarterly Reports on Form 10-Q filed with the SEC on May 7, 2013 and August 6, 2013.

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## PART I FINANCIAL INFORMATION

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THE CHEFS WAREHOUSE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Amounts in thousands, except share data)**

	<b>September 27, 2013</b>	<b>December 28, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 54,616	\$ 118
Accounts receivable, net of allowance of \$3,487 in 2013 and \$3,440 in 2012	66,980	56,694
Inventories, net	57,271	40,402
Deferred taxes, net	2,362	2,839
Prepaid expenses and other current assets	7,010	5,452
<b>Total current assets</b>	<b>188,239</b>	<b>105,505</b>
Restricted cash	6,208	11,008
Equipment and leasehold improvements, net	18,265	9,365
Software costs, net	158	328
Goodwill	66,934	45,359
Intangible assets, net	47,607	35,708
Other assets	3,846	2,861
<b>Total assets</b>	<b>\$ 331,257</b>	<b>\$ 210,134</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 32,514	\$ 33,718
Accrued liabilities	10,961	5,291
Accrued compensation	4,791	3,519
Current portion of long-term debt	6,545	5,175
<b>Total current liabilities</b>	<b>54,811</b>	<b>47,703</b>
Long-term debt, net of current portion	141,411	119,352
Deferred taxes, net	5,472	2,552
Other liabilities and deferred credits	2,640	1,245
<b>Total liabilities</b>	<b>204,334</b>	<b>170,852</b>

Commitments and contingencies:		
Stockholders' equity:		
Preferred Stock \$0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding September 27, 2013 and December 28, 2012		
Common Stock \$0.01 par value, 100,000,000 shares authorized, 25,013,088 and 20,988,073 shares issued and outstanding September 27, 2013 and December 28, 2012, respectively	250	210
Additional paid in capital	96,647	21,005
Cumulative foreign currency translation adjustment	(195)	
Retained earnings	30,221	18,067
Stockholders' equity	126,923	39,282
Total liabilities and stockholders' equity	\$ 331,257	\$ 210,134

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****THE CHEFS WAREHOUSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)****(Amounts in thousands, except share and per share amounts)**

	<b>13 Week Period Ended</b>	
	<b>September 27, 2013</b>	<b>September 28, 2012</b>
Net revenues	\$ 170,581	\$ 124,807
Cost of sales	126,624	92,430
Gross profit	43,957	32,377
Operating expenses	34,522	25,052
Operating income	9,435	7,325
Interest expense	2,328	1,010
Loss on sale of assets		3
Income before income taxes	7,107	6,312
Provision for income tax expense	2,947	2,496
Net income	\$ 4,160	\$ 3,816
Other comprehensive income:		
Foreign currency translation adjustments	142	
Comprehensive income	\$ 4,302	\$ 3,816
Net income per share:		
Basic	\$ 0.20	\$ 0.18
Diluted	\$ 0.20	\$ 0.18
Weighted average common shares outstanding:		
Basic	20,928,148	20,662,956
Diluted	21,145,159	20,980,019

See accompanying notes to condensed consolidated financial statements.

Table of Contents**THE CHEFS WAREHOUSE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME****(Unaudited)****(Amounts in thousands, except share and per share amounts)**

	<b>39 Week Period Ended</b>	
	<b>September 27, 2013</b>	<b>September 28, 2012</b>
Net revenues	\$ 480,158	\$ 337,701
Cost of sales	357,068	248,804
Gross profit	123,090	88,897
Operating expenses	96,701	67,997
Operating income	26,389	20,900
Interest expense	5,598	2,454
Loss on sale of assets	4	3
Income before income taxes	20,787	18,443
Provision for income tax expense	8,633	7,536
Net income	\$ 12,154	\$ 10,907
Other comprehensive income:		
Foreign currency translation adjustments	(195)	
Comprehensive income	\$ 11,959	\$ 10,907
Net income per share:		
Basic	\$ 0.58	\$ 0.53
Diluted	\$ 0.58	\$ 0.52
Weighted average common shares outstanding:		
Basic	20,819,209	20,571,848
Diluted	21,052,560	20,911,337

See accompanying notes to condensed consolidated financial statements.



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	<b>39 Week Period Ended</b>	
	<b>September 27, 2013</b>	<b>September 28, 2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,154	\$ 10,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,925	1,446
Amortization	3,537	1,049
Provision for allowance for doubtful accounts	443	729
Deferred credits	282	224
Deferred taxes	228	362
Write-off of deferred financing fees		237
Amortization of deferred financing fees	405	307
Stock compensation	892	1,335
Change in fair value of earnout	49	
Loss on sale of assets	4	3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(2,136)	(2,090)
Inventories	(1,262)	(2,448)
Prepaid expenses and other current assets	(133)	(3,361)
Accounts payable and accrued liabilities	(1,448)	668
Other liabilities	26	
Other assets	(218)	(43)
<b>Net cash provided by operating activities</b>	<b>14,748</b>	<b>9,325</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(5,660)	(2,733)
Cash paid for acquisitions, net of cash received	(54,364)	(73,279)
<b>Net cash used in investing activities</b>	<b>(60,024)</b>	<b>(76,012)</b>
<b>Cash flows from financing activities:</b>		
Payment of debt	(3,652)	(30,087)
Net proceeds from secondary offering	75,060	
Proceeds from senior secured term loan		40,000
Proceeds from senior secured notes	100,000	

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Payment of deferred financing fees	(1,230)	(1,733)
Surrender of shares to pay withholding taxes	(270)	(346)
Change in restricted cash	4,800	(4)
Borrowings under revolving credit line	70,800	229,958
Payments under revolving credit line	(145,800)	(170,940)
<b>Net cash provided by financing activities</b>	<b>99,708</b>	<b>66,848</b>
Effect of foreign currency on cash and cash equivalents	66	
<b>Net increase in cash and cash equivalents</b>	<b>54,498</b>	<b>161</b>
Cash and cash equivalents-beginning of period	118	2,033
<b>Cash and cash equivalents-end of period</b>	<b>\$ 54,616</b>	<b>\$ 2,194</b>
Supplemental cash flow disclosures:		
Cash paid for income taxes	\$ 9,160	\$ 10,343
Cash paid for interest	\$ 4,047	\$ 1,785
Noncash investing activity:		
Software financing	\$ 1,944	\$

See accompanying notes to condensed consolidated financial statements.

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**THE CHEFS WAREHOUSE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

(Information as of September 27, 2013 and for the 13 weeks and 39 weeks ended September 27, 2013 and September 28, 2012 is unaudited)

**Note 1 Operations and Basis of Presentation**

***Description of Business and Basis of Presentation***

The financial statements include the consolidated accounts of The Chefs Warehouse, Inc. (the Company) and its 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, culinary schools and specialty food stores.

***Consolidation***

The Company's direct and indirect wholly-owned operating companies include the following: Dairyland USA Corporation (Dairyland), a New York corporation engaged in business as a distributor of dairy, meat, and specialty foods; Bel Canto Foods, LLC, a New York limited liability company engaged in the business of importing primarily Mediterranean style food products; Dairyland HP LLC (DHP), a Delaware limited liability company engaged in the business of renting real estate; The Chefs Warehouse Mid-Atlantic, LLC, a Delaware limited liability company engaged in a business similar to Dairyland, primarily in Maryland and the District of Columbia; The Chefs Warehouse West Coast, LLC, a Delaware limited liability company engaged in a business similar to Dairyland, primarily in California, Nevada, Oregon and Washington; Michael's Finer Meats, LLC, a Delaware limited liability company engaged in the distribution of meat, seafood and other center-of-the-plate products, primarily in Ohio, Indiana, Illinois, Tennessee, Michigan, Kentucky, West Virginia and western Pennsylvania; The Chefs Warehouse Midwest, LLC, a Delaware limited liability company engaged in a business similar to Dairyland, primarily in Ohio, Kentucky and Indiana; The Chefs Warehouse Pastry Division, Inc., a Delaware corporation engaged in the distribution of gourmet chocolate, dessert and pastry products; The Chefs Warehouse Pastry Division Canada ULC, a British Columbia unlimited liability company engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; QZ Acquisition (USA), Inc., a Delaware corporation engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; Qzina Specialty Foods, North America (USA), Inc., a Delaware corporation engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; Qzina Specialty Foods, Inc., a Florida corporation engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; Qzina Specialty Foods, Inc., a Washington corporation engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; Qzina Specialty Foods (Ambassador), Inc., a California corporation engaged in a business similar to The Chefs Warehouse Pastry Division, Inc.; The Chefs Warehouse of Florida, LLC, a Delaware limited liability company engaged in a business similar to Dairyland, primarily in southern Florida; and CW LV Real Estate, LLC, a Delaware limited liability company engaged in owning real estate in Las Vegas, Nevada. In addition to these operating companies, the Company also owns 100% of Chefs Warehouse Parent, LLC, a Delaware limited liability company which owns 100% of The Chefs Warehouse Mid-Atlantic, LLC, The Chefs Warehouse West Coast, LLC, The Chefs Warehouse of Florida, LLC, The

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Chefs Warehouse Midwest, LLC, Michael's Finer Meats Holdings, LLC, a Delaware limited liability company, QZ Acquisition (USA), Inc, and The Chefs Warehouse Pastry Division, Inc. Dairyland owns 100% of Bel Canto Foods, LLC and Dairyland HP LLC. Michael's Finer Meats Holdings, LLC owns 100% of Michael's Finer Meats, LLC. QZ Acquisition (USA), Inc. owns 100% of Qzina Specialty Foods North America (USA), Inc. Qzina Specialty Foods North America (USA), Inc. owns 100% of Qzina Specialty Foods, Inc. (FL), Qzina Specialty Foods, Inc. (WA) and Qzina Specialty Foods (Ambassador), Inc. The Chefs Warehouse Pastry Division, Inc. owns 100% of The Chefs Warehouse Pastry Division Canada ULC. The Chefs Warehouse West Coast, LLC owns 100% of CW LV Real Estate, LLC. 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

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**THE CHEFS WAREHOUSE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

(Information as of September 27, 2013 and for the 13 weeks and 39 weeks ended September 27, 2013 and September 28, 2012 is unaudited)

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 28, 2012 filed as part of the Company's Annual Report on Form 10-K, as filed with the SEC on March 13, 2013.

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 13, 2013, 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 27, 2013 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.

**Note 2 Earnings Per Share**

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