KPMG

RECREATIONAL EQUIPMENT, INC.

Consolidated Financial Statements

December 29, 2018 and December 30, 2017

(With Independent Auditors’ Report Thereon)

RECREATIONAL EQUIPMENT, INC.

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KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Recreational Equipment, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Recreational Equipment, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 29, 2018 and December 30, 2017, and the related consolidated statements of comprehensive income, members' equity, and cash flows for the 52-week periods ended December 29, 2018 and December 30, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Recreational Equipment, Inc. and its subsidiaries as of December 29, 2018 and December 30, 2017, and the results of their operations and their cash flows for the 52-week periods ended December 29, 2018 and December 30, 2017, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Seattle, Washington
March 13, 2019

RECREATIONAL EQUIPMENT, INC.

Consolidated Balance Sheets

December 29, 2018, and December 30, 2017

(In thousands)

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	270,861	228,012
Short-term investments		292,574	292,599
Accounts receivable, less allowance for doubtful accounts of $437 and $222, respectively		33,098	28,177
Inventories		529,484	493,973
Prepaid expenses and other		23,234	20,698
Income taxes receivable		—	10,027
Total current assets		1,149,251	1,073,486
Property and equipment, net of accumulated depreciation of $898,254 and $814,877, respectively		608,771	560,061
Goodwill, net of accumulated amortization of $4,026 and $2,879, respectively		4,007	5,154
Deferred income taxes, net		28,359	24,297
Other		32,460	37,057
Total assets	$	1,822,848	1,700,055
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable	$	257,647	241,271
Customer-related obligations		223,236	211,159
Patronage dividends payable		149,287	142,799
Accrued payroll and benefits		117,070	102,476
Business taxes and other accrued liabilities		41,112	36,596
Income taxes payable		1,388	—
Total current liabilities		789,740	734,301
Deferred rent and other long-term liabilities		79,044	78,522
Commitments and contingencies (note 9)			
Members' equity:			
Memberships		290,622	270,543
Accumulated other comprehensive loss		(712)	(367)
Retained earnings		664,154	617,056
Total members' equity		954,064	887,232
Total liabilities and members' equity	$	1,822,848	1,700,055

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Comprehensive Income

Periods ended December 29, 2018 and December 30, 2017

(In thousands)

		December 31, 2017 – December 29, 2018	January 1, 2017 – December 30, 2017
Net sales	$	2,781,909	2,622,776
Cost of sales		1,567,202	1,482,580
Gross profit		1,214,707	1,140,196
Operating expenses:			
Payroll-related expenses		561,851	515,038
Occupancy, general and administrative		466,405	436,658
Operating expenses		1,028,256	951,696
Operating income		186,451	188,500
Other income (expense), net		1,328	(2,320)
Income before patronage dividends and income taxes		187,779	186,180
Patronage dividends, net		129,635	121,959
Income before income taxes		58,144	64,221
Provision for income taxes		11,046	33,696
Net income		47,098	30,525
Other comprehensive loss:			
Unrealized loss on available-for-sale securities, net of tax of ($10) and $35, respectively		(345)	(35)
Comprehensive income	$	46,753	30,490

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Members' Equity

Periods ended December 29, 2018 and December 30, 2017

(In thousands)

		Memberships	Retained earnings	Accumulated other comprehensive loss	Total members' equity
Balance at December 31, 2016	$	251,240	586,531	(332)	837,439
Unrealized loss on available-for-sale securities, net of tax		—	—	(35)	(35)
Memberships issued		19,303	—	—	19,303
Net income		—	30,525	—	30,525
Balance at December 30, 2017		270,543	617,056	(367)	887,232
Unrealized loss on available-for-sale securities, net of tax		—	—	(345)	(345)
Memberships issued		20,079	—	—	20,079
Net income		—	47,098	—	47,098
Balance at December 29, 2018	$	290,622	664,154	(712)	954,064

See accompanying notes to consolidated financial statements.

RECREATIONAL EQUIPMENT, INC.

Consolidated Statements of Cash Flows

Periods ended December 29, 2018 and December 30, 2017

(In thousands)

		December 31, 2017 – December 29, 2018	January 1, 2017 – December 30, 2017
Operating activities:			
Net income	$	47,098	30,525
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of goodwill		104,922	99,116
Amortization of investment premium/discount		(782)	527
Change in provision for sales returns		3,404	(530)
Deferred income taxes, net		(4,069)	32,757
Deferred rent		683	416
Gain/loss on sale and disposal of equipment		(1,189)	(4,715)
Changes in operating assets and liabilities:			
Accounts receivable		(4,921)	(887)
Inventories		(32,473)	(30,042)
Prepaids and other assets		7,376	(15,832)
Accounts payable and other accrued expenses		42,644	88,951
Net cash provided by operating activities		162,693	200,286
Investing activities:			
Acquisition of business, net of cash received		(89)	(178)
Purchases of short-term investments		(1,075,471)	(738,879)
Proceeds from sale of short-term investments		1,075,940	730,828
Purchases of property and equipment		(143,746)	(183,522)
Proceeds from sale of property and equipment		3,443	9,011
Net cash used in investing activities		(139,923)	(182,740)
Financing activity:			
Proceeds from sale of memberships		20,079	19,303
Net cash provided by financing activity		20,079	19,303
Net increase in cash and cash equivalents		42,849	36,849
Cash and cash equivalents at beginning of year		228,012	191,163
Cash and cash equivalents at end of year	$	270,861	228,012
Supplemental disclosures of cash flow information:			
Cash paid for:			
Income taxes	$	4,294	12,889
Noncash investing activity:			
Property and equipment additions in accounts payable	$	12,472	6,191

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) Business Overview

Recreational Equipment, Inc. and its subsidiaries (collectively, REI or the Company) operate as a specialty outdoor retail cooperative. REI is dedicated to inspiring, educating, and outfitting its members and the community for a lifetime of outdoor adventure and stewardship. REI was founded in 1938 by a group of Pacific Northwest mountaineers seeking quality equipment and is committed to promoting environmental stewardship and creating access to inspirational places throughout the country. REI sells goods and services through more than 150 retail stores located throughout the United States, online through rei.com, and through calls to the REI support center.

(b) Principles of Consolidation

The consolidated financial statements present the results of operations, financial position, and cash flows of the Company in U.S. dollars, in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Recreational Equipment, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

(c) Fiscal Year

REI reports results on a 52/53-week fiscal year ending on the Saturday closest to December 31. Reported results relate to the 52-week fiscal years ended December 29, 2018 and December 30, 2017.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities. Uncertainties regarding such estimates and assumptions are inherent and, as a result, actual results could differ. Such estimates include, but are not limited to, the following: useful lives and recoverability of fixed assets, inventory obsolescence, income taxes, sales returns reserves, unredeemed gift cards, unredeemed patronage dividends, and goodwill.

(e) Cash and Cash Equivalents

Cash equivalents are highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents include payments due from financial institutions for third-party credit card and debit card deposits, which are typically received within two to four business days. The Company maintains a portion of its cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances and management believes its credit risk to be minimal.

(Continued)

(f) Short-Term Investments

The Company invests cash in accordance with its investment policy. The Company's short-term investments are classified as available-for-sale securities and consist primarily of corporate bonds, tax-exempt municipal bonds, commercial paper, and asset-backed securities (the majority of which are auto receivables). The Company is exposed to credit risk in the event of default by issuers and counterparties of the short-term investments. The Company's available-for-sale securities consist primarily of investments that regularly trade in active markets; as such, the Company has classified the entire available-for-sale portfolio as a current asset on the consolidated balance sheets. The Company's investments are stated at fair value, with any unrealized gains and losses, net of deferred income taxes, reported as a component of accumulated other comprehensive income. Realized gains and losses on these securities are included in other expense, net in the consolidated statements of comprehensive income. The cost of securities sold is determined using the specific identification method. The Company periodically evaluates unrealized losses in its investment securities for other-than-temporary impairment, using both qualitative and quantitative criteria. In the event a security is deemed to be other-than-temporarily impaired, the Company records a charge against net income. No such charges were recorded for the periods ended December 29, 2018 or December 30, 2017.

The cost and fair value of the Company's available-for-sale securities that are carried at fair value at December 29, 2018, by contractual maturity, are as follows (in thousands):

		Cost	Fair value
Due in one year or less	$	178,142	177,965
Due in more than one year		115,370	114,609
Total	$	293,512	292,574

(g) Accounts Receivable

Accounts receivable are primarily due from vendors and landlords. The Company estimates its allowance for doubtful accounts based on length of time past due and ability to collect the receivable.

(h) Inventories

Inventories are carried at the lower of cost or net realizable value, defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation, on an average cost basis. The Company records a write-down of inventories, which are obsolete or slow-moving based upon historical experience.

(i) Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairments. Depreciation is computed primarily by using the straight-line method based on the assets' estimated useful lives, which are 10 to 30 years for buildings and improvements, and two to 10 years for software, equipment, furniture, and fixtures. Renewals and betterments that add to the productive capacity or extend the useful life of the asset are capitalized. Capitalized software includes the costs of developing or obtaining internal-use software, including external direct costs of materials and services and internal payroll costs related to each software project.

(Continued)

Leasehold improvements made at the inception of the lease are amortized over the shorter of the initial lease term or the asset life. Leasehold improvements made during the lease term are amortized over the shorter of the asset life or the remaining lease term.

Maintenance and repairs are charged to expense as incurred.

(j) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

In 2015, the Company elected to adopt Accounting Standards Update (ASU) 2014-02, *Accounting for Goodwill*, which allows a private company to elect an accounting alternative to amortize goodwill on a straight-line basis over 10 years or less than 10 years if the entity demonstrates another useful life is appropriate. For goodwill acquired during 2016 and prior, an amortization period of 7 years was applied as this period corresponds to the assets acquired. There were no acquisitions in 2018 or 2017. The Company has elected to follow the authoritative guidance available to private companies to assess goodwill impairment at the entity-wide level. The Company will assess goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be fully recoverable. There was no impairment recognized for the periods ended December 29, 2018 and December 30, 2017.

(k) Long-Lived Assets

When facts or circumstances indicate that the carrying values of long-lived assets, including buildings, equipment, and internal-use software may not be recoverable, an evaluation for impairment is performed. An asset is considered impaired when estimated undiscounted future cash flows are less than the carrying amount of the asset. In the event that the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based upon a discounted future cash flow model. Property and equipment assets are grouped at the lowest level in which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. There was no impairment recognized for the periods ended December 29, 2018 and December 30, 2017.

(l) Customer-Related Obligations

Sales returns reserves, deferred revenue for unredeemed gift cards, and the REI co-branded credit card reward program are reflected within customer-related obligations.

(Continued)

(m) Patronage Dividends

The Company declares a patronage dividend to members based on the level of qualifying member purchases during each calendar year. As required by the Company's bylaws, the dividend is limited to the distribution of operating income (as defined). The Company records the patronage dividends payable liability based upon its estimate of dividends that will be redeemed by co-op members prior to the dividend expiration date. The Company has historical experience demonstrating that less than 100% of members redeem their entire patronage dividends within the time period these dividends are available to them. At December 29, 2018, the balance of patronage dividends payable was $149.3 million, net of estimated dividends of $44.4 million that will not be redeemed, and $142.8 million at December 30, 2017, net of estimated dividends of $41.2 million that will not be redeemed.

(n) Sabbatical Leave

The Company provides paid leave to employees with service of 15 or more years. The Company records the compensation cost associated with sabbatical leaves over the requisite service periods.

(o) Rent

The Company recognizes minimum rent expense, net of landlord reimbursements, on a straight-line basis over the lease term from the time that the Company controls the leased property. For leases that contain predetermined, fixed escalations of the minimum rent, the Company recognizes the rent expense on a straight-line basis and records the difference between the rent expense and the rent payable as a deferred credit.

As part of entering into certain retail store leases, the lessor may provide the Company with a tenant improvement allowance. Typically, such allowances are in the form of cash and represent reimbursements to the Company for tenant improvements made to the leased space. These improvements are capitalized as fixed assets and the allowances are classified as a component of deferred rent. This incentive is considered a reduction of rent expense by the Company over the term of the lease on a straight-line basis.

(p) Memberships

As a cooperative, the Company is owned by its members. Each eligible member is entitled to vote in the election of the Company's board of directors. To be considered eligible to vote, a member must have purchased at least $10 worth of merchandise, had a shipping charge of at least $10, or become a new member in the previous calendar year. Since January 1, 2008, the one-time fee for a nonrefundable, nontransferable membership has been $20. As of December 29, 2018, there were 6.5 million voting eligible members.

(q) Net Sales

The Company recognizes revenue from product sales when products are purchased by customers at the Company's stores or when products are shipped for online sales. Revenue is recorded net of sales taxes and estimated allowances for returns. The allowance for sales returns is based on historical information and reduces both sales and cost of sales. Shipping revenue is included in net sales and the related costs of shipping are included in cost of sales.

The Company recognizes revenue associated with gift cards when the gift cards are redeemed for merchandise or services. The determination of the likelihood of redemption is based on an analysis of the Company's historical redemption trends. Unredeemed gift cards are recognized in the consolidated statements of comprehensive income as a reduction to occupancy, general, and administrative expenses when redemption becomes remote.

(r) Cost of Sales

Cost of sales includes the cost to purchase and transport merchandise to the Company. The Company receives rebates, allowances, and cooperative advertising funds from vendors. Amounts received related to the reimbursement of costs incurred, such as advertising, are recognized as a reduction in the related expense when the vendor receives a specific incremental, identifiable benefit. Other consideration received from vendors in the form of cash and credits are recorded as a reduction of cost of sales as the related merchandise is sold.

(s) Occupancy, General, and Administrative Expenses

Occupancy, general, and administrative expenses consist primarily of depreciation, advertising, rent, bankcard fees, and other miscellaneous expenses.

(t) Advertising Costs

Advertising production costs for internet, photo, video, direct mail, and other media are expensed the first time the advertisement is delivered. Other advertising costs are expensed as incurred. Advertising expense for 2018 and 2017 was $77.5 million and $75.4 million, respectively, and is included in occupancy, general, and administrative expenses.

(u) New Store Opening Costs

Noncapital expenditures associated with opening or relocating stores are charged to expense as incurred and included in occupancy, general, and administrative expenses.

(v) Income Taxes

The Company operates as a cooperative subject to taxes on all income not distributed to members. The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax basis. The deferred tax assets and liabilities are calculated using the enacted tax rates that are expected to be in effect when the differences are expected to reverse. The Company establishes a valuation allowance for deferred tax assets if it is more likely than not that these items will expire before the Company is able to realize the benefit or future deductibility is uncertain.

(w) Recent Accounting Pronouncements Not Yet Adopted

(i) Lease Accounting

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For nonpublic entities, the new standard is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company plans to adopt this ASU in 2020 and plans to utilize the transition option which does not require application of the guidance to comparative periods in the year of adoption. The Company is currently evaluating the impact of this guidance and expects the adoption will result in a material increase in the assets and liabilities on the consolidated balance sheets. The standard will have no impact on the covenants under the Company's line of credit agreement.

(ii) Revenue Accounting

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date for nonpublic entities to annual reporting periods beginning after December 15, 2018. The Company plans to adopt this ASU in 2019, using the modified retrospective approach through a cumulative effect adjustment to retained earnings. The Company has substantially completed its assessment of the new standard against its existing accounting policies and determined the greatest impacts will be as follows:

Gift card breakage will be recorded in sales, rather than occupancy, general and administrative expenses. It will be estimated based on expected customer redemption patterns, rather than when redemption is considered remote.

Certain co-branded credit card income will be recorded in sales, rather than occupancy, general and administrative expenses. The timing and method of recognition will not be impacted by adoption of this ASU.

The Company does not anticipate the provisions of this ASU to have a material impact on our consolidated financial statements beyond the initial adoption and changes noted above.

(2) Fair Value

The Company applies fair value accounting for all financial assets and liabilities that are recognized at fair value in the financial statements. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other inputs that are directly or indirectly observable in the marketplace

Level 3 – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

As of December 29, 2018 and December 30, 2017, there were no financial instruments within Level 3 of the hierarchy. Nonfinancial assets, including property and equipment and goodwill, are reported at carrying value and are not required to be measured at fair value on a recurring basis. However, on a periodic basis, or whenever events or changes in circumstances indicate their carrying value may not be recoverable, the Company assesses long-lived assets for impairment. Nonrecurring assessments use significant unobservable inputs and, therefore, fall under Level 3 of the fair value hierarchy.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments. The carrying amount of the Company’s accounts receivable and accounts payable on the consolidated balance sheets approximate fair value due to their short-term nature.

(Continued)

Assets and liabilities measured at fair value consist of the following as of December 29, 2018 (in thousands):

	Cost basis	Unrealized losses	Fair value	Cash and cash equivalents	Short-term investments
Cash	$ 38,356	—	38,356	38,356	—
Level 1:					
Money market	232,505	—	232,505	232,505	—
Subtotal	270,861	—	270,861	270,861	—
Level 2:					
Asset-backed securities	34,885	(142)	34,743	—	34,743
Commercial paper	74,340	—	74,340	—	74,340
Corporate bonds	108,111	(686)	107,425	—	107,425
Municipal bonds	76,176	(110)	76,066	—	76,066
Subtotal	293,512	(938)	292,574	—	292,574
Total	$ 564,373	(938)	563,435	270,861	292,574

Assets and liabilities measured at fair value consist of the following as of December 30, 2017 (in thousands):

	Cost basis	Unrealized losses	Fair value	Cash and cash equivalents	Short-term investments
Cash	$ 52,670	—	52,670	52,670	—
Level 1:					
Money market	175,343	(1)	175,342	175,342	—
U.S. Treasury securities	—	—	—	—	—
Mutual funds	26,151	(136)	26,015	—	26,015
Subtotal	254,164	(137)	254,027	228,012	26,015
Level 2:					
Asset-backed securities	20,467	(82)	20,385	—	20,385
U.S. agency securities	2,189	—	2,189	—	2,189
Commercial paper	93,118	—	93,118	—	93,118
Corporate bonds	44,668	(140)	44,528	—	44,528
Certificates of deposits	11,131	—	11,131	—	11,131
Municipal bonds	92,976	(243)	92,733	—	92,733
VRDNs	2,500	—	2,500	—	2,500
Subtotal	267,049	(465)	266,584	—	266,584
Total	$ 521,213	(602)	520,611	228,012	292,599

(Continued)

(3) Property and Equipment

Property and equipment consist of the following as of December 29, 2018 and December 30, 2017 (in thousands):

		2018	2017
Land, buildings, and improvements	$	428,496	426,593
Equipment, furniture, and fixtures		400,454	377,536
Software		303,392	263,644
Leasehold improvements		266,278	260,019
Construction-in-progress		108,405	47,146
		1,507,025	1,374,938
Less accumulated depreciation		898,254	814,877
Total	$	608,771	560,061

The Company's depreciation expense was $103.8 million for 2018 and $98.0 million for 2017.

(4) Goodwill

The Company completed no business acquisitions in 2018 or 2017. For the periods ended December 29, 2018 and December 30, 2017, goodwill amortization expense was $1.1 million and $1.1 million, respectively.

Goodwill activity is as follows for the periods ended December 29, 2018 and December 30, 2017 (in thousands):

		2018	2017
Goodwill, beginning balance	$	5,154	6,301
Goodwill acquired during the period		—	—
Goodwill amortization during the period		(1,147)	(1,147)
	$	4,007	5,154

(5) Line of Credit

In 2017, the Company entered into a line of credit agreement. Under the facility, the Company is permitted to borrow a maximum of $100 million. The agreement expires September 5, 2022. No amounts were outstanding at December 29, 2018 or December 30, 2017. At December 29, 2018, approximately $2.6 million of the amount available under the line of credit was reserved for outstanding letters of credit. The Company was in compliance with all covenants imposed by the line of credit agreement as of December 29, 2018 and December 30, 2017.

(6) Income Taxes

The provision for income taxes is as follows for the periods ended December 29, 2018 and December 30, 2017 (in thousands):

		2018	2017
Current:			
Federal	$	10,276	273
State		4,832	699
		15,108	972
Deferred		(4,062)	32,724
Total provision for income taxes	$	11,046	33,696

A reconciliation from the U.S. statutory rate to the effective tax rate is as follows for the periods ended December 29, 2018 and December 30, 2017 (in thousands):

		2018			2017	
		Amount	Percent		Amount	Percent
Tax at federal statutory rate	$	12,210	21.00 %	$	22,478	35.00 %
State income taxes, net of federal tax benefit		4,122	7.09		2,634	4.10
Tax credits		(1,729)	(2.97)		(1,833)	(2.85)
Impact of 2017 Tax Act		—	—		9,291	14.47
Other		(3,557)	(6.12)		1,126	1.75
	$	11,046	19.00 %	$	33,696	52.47 %

Significant components of the Company's deferred income taxes are as follows for December 29, 2018 and December 30, 2017 (in thousands):

		2018	2017
Deferred tax assets:			
Noncurrent:			
Patronage dividends	$	10,001	9,355
Inventory basis differences		5,277	5,485
Gift cards		7,623	7,080
Fixed asset depreciation and basis differences		(22,180)	(28,124)
Deferred rent		12,531	12,816
Deferred income		1,448	1,788
Nonqualified retirement plan accrual		3,161	3,204
Employee benefits and compensation		7,000	5,977
Other		3,498	6,716
Net deferred tax assets	$	28,359	24,297

The 2017 Tax Act was signed into law on December 22, 2017. The 2017 Tax Act significantly revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. In 2017 the Company recorded tax expense for the impact of the 2017 Tax Act of approximately $9.3 million. This amount is due to the re-measurement of federal net deferred tax assets resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%. The Company's blended future expected tax rate is 26%, comprised of the 21% federal rate and an expected 5% state rate.

Significant judgment is required in evaluating the Company's tax positions and determining the Company's provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate determination is uncertain. The Company establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when Company management believes that certain positions might be challenged despite the Company's belief that their tax return positions are fully supportable. These reserves are adjusted in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense and tax liabilities. As of December 29, 2018, the liability for uncertain tax positions includes an immaterial amount related to interest and penalties. Tax years 2014 through 2018 remain open to examination by the major taxing jurisdictions to which the Company is subject. Management does not anticipate any potential settlement or examination to result in a material change to the Company's financial position.

(7) Employee Benefits Plan

The Company has a defined contribution retirement and profit-sharing plan covering employees meeting certain eligibility requirements (generally, one year of employment and 1,000 hours of service). Company contributions are based on a percentage of eligible participant compensation ranging from 5% to 15%, depending on the Company's profitability. The retirement and profit-sharing plan Company contributions were approximately $26.3 million and $24.5 million for 2018 and 2017, respectively.

The Company also has a nonqualified deferred compensation plan, which provides a voluntary pay deferral option enabling eligible participants to contribute a portion of their respective annual base salary and bonus plan payments. Compensation is charged to expense in the period earned. In order to fund the nonqualified deferred compensation plan's future obligations, the Company has purchased investments held in irrevocable trusts commonly referred to as "Rabbi Trusts." As the Company is the owner of the investments and in order to reflect the Company's policy to pay benefits equal to the accumulations, the assets and liabilities are reflected in the consolidated balance sheets. At December 29, 2018 and December 30, 2017, assets and liabilities recorded in connection with deferred compensation plan benefits totaled $15.4 million and $15.6 million, respectively.

The nonqualified deferred compensation plan also provides the Company's highly compensated employees with a contribution equal to that which would have been allocated to them under the qualified retirement plan were it not for the limitations imposed by Internal Revenue Code Section 401(a)(17) and Section 415 and one-time eligibility limitations due to hire date. The Company's contributions to the nonqualified deferred compensation plan are based on a percentage of eligible participant compensation ranging from 5% to 15%, depending on the Company's profitability. Total Company contributions were approximately $0.2 million and $0.2 million for 2018 and 2017, respectively.

(8) Leases

The Company leases 131 retail store locations and office spaces. All leases are classified as operating leases and expire within the next 20 years but contain various renewal options. Certain leases contain provisions for contingent rent expense based on a percentage of sales revenue. Rent expense under operating leases, net of tenant improvement allowances, was approximately $70.9 million and $73.9 million for 2018 and 2017, respectively, and does not include common area charges, real estate taxes, and other executory costs.

Future minimum lease payments under noncancelable operating leases as of December 29, 2018 are as follows (in thousands):

2019	$	76,947
2020		70,613
2021		63,014
2022		53,583
2023		45,848
Thereafter		190,555
	$	500,560

(9) Commitments and Contingencies

The Company is subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging infringement of technology patents, violations of state and/or federal wage and hour and other employment laws, and other consumer-based claims. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. In management's opinion, the recorded reserves in the Company's consolidated financial statements are adequate in light of the probable and estimable liabilities. As of the date of this report, management does not believe any currently identified claim, proceeding, or litigation, either alone or in the aggregate with other claims, will have a material impact on the Company's results of operations, financial position, or cash flows. Because these matters are subject to inherent uncertainties, management's view of them may change in the future.

(10) Subsequent Events

The Company evaluated subsequent events through March 13, 2019, the date the consolidated financial statements were available to be issued. There were no material subsequent events or transactions that required recognition or disclosure in these consolidated financial statements.