

SPARTAN STORES INC
Form 10-K
May 17, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended March 27, 2010.
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: **000-31127**

SPARTAN STORES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan
(State or Other Jurisdiction)
of Incorporation or Organization)

38-0593940
(I.R.S. Employer Identification No.)

850 76th Street, S.W.
P.O. Box 8700
Grand Rapids, Michigan
(Address of Principal Executive Offices)

49518-8700
(Zip Code)

Registrant's telephone number, including area code: **(616) 878-2000**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act:

Title of Class
Common Stock, no par value

Name of Exchange on which Registered
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 a check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File requirement to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer 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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates based on the last sales price of such stock on the NASDAQ Global Select Market on September 12, 2009 (which was the last trading day of the registrant's second quarter in the fiscal year ended March 27, 2010) was \$288,192,666.

The number of shares outstanding of the registrant's Common Stock, no par value, as of May 10, 2010 was 22,517,571, all of one class.

DOCUMENTS INCORPORATED BY REFERENCE

Part III, Items 10, 11,
12, 13 and 14

Proxy Statement for Annual Meeting to be held August 11, 2010

Forward-Looking Statements

The matters discussed in this Annual Report on Form 10-K include "forward-looking statements" about the plans, strategies, objectives, goals or expectations of Spartan Stores, Inc. (together with its subsidiaries, "Spartan Stores"). These forward-looking statements are identifiable by words or phrases indicating that Spartan Stores or management "expects," "anticipates," "plans," "believes," "estimates," "intends," is "optimistic" or "confident" that a particular occurrence or event "will," "may," "could," "should" or "will likely" result or occur or "continue" in the future, that the "outlook" or "trend" is toward a particular result or occurrence, that a development is an "opportunity," a "priority" or "strategy" or similarly stated expectations. Accounting estimates, such as those described under the heading "Critical Accounting Policies" in Item 7 of this Annual Report on Form 10-K, are inherently forward-looking. Our asset impairment and exit cost provisions are estimates and actual costs may be more or less than these estimates and differences may be material. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission, there are many important factors that could cause actual results to differ materially. Our ability to maintain and strengthen our retail-store performance; assimilate acquired stores; maintain or grow sales; respond successfully to competitors; maintain gross margin; anticipate and successfully respond to openings of competitors; maintain and improve customer and supplier relationships; realize expected benefits of restructuring; realize growth opportunities; maintain or expand our customer base; reduce operating costs; sell on favorable terms assets held for sale; generate cash; continue to meet the terms of our debt covenants; continue to pay dividends, and successfully implement and realize the expected benefits of the other programs, plans, priorities, strategies, objectives, goals or expectations described in this Annual Report, our other reports, our press releases and our public comments will be affected by changes in economic conditions generally or in the markets and geographic areas that we serve, adverse effects of the changing food and distribution industries and other factors including, but not limited to, those discussed in the "Risk Factors" discussion in Item 1A of this Annual Report.

This section and the discussions contained in Item 1A, "Risk Factors," and in Item 7, subheading "Critical Accounting Policies" in this report, both of which are incorporated here by reference, are intended to provide meaningful cautionary statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect our expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to Spartan Stores or that Spartan Stores currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. We undertake no obligation to update or revise our forward-looking statements to reflect developments that occur or information obtained after the date of this Annual Report.

PART I

Item 1. Business Overview

Spartan Stores is a leading regional grocery distributor and grocery retailer, operating principally in Michigan and Indiana. We operate two reportable business segments: Distribution and Retail. We estimate that we are the eleventh largest wholesale distributor to supermarkets in the United States and the largest wholesale distributor to supermarkets in Michigan. According to *Trade Dimensions Market Scope*, our distribution and retail operations hold a combined #1 or #2 market share in the Northern Michigan and Western Michigan markets we serve and a #3 market share in other Michigan markets. For the fiscal year ended March 27, 2010 ("fiscal 2010"), we generated net sales of \$2.6 billion.

Established in 1917 as a cooperative grocery distributor, Spartan Stores converted to a for-profit business corporation in 1973. In January 1999, we began to acquire retail supermarkets in our focused geographic regions. In August 2000, our common stock became listed on the NASDAQ Stock Market under the symbol "SPTN." With approximately 8,800 associates, Spartan Stores distributes a wide variety of products to approximately 375 independent grocery stores and operates 96 conventional supermarkets.

Spartan Stores' hybrid business model supports the close functioning of its Distribution and Retail operations, optimizing the natural complements of each business segment. The model produces operational efficiencies, helps stimulate distribution product demand, and provides sharper market visibility and broader business growth options. In addition, the Distribution and Retail diversification provides added flexibility to pursue the best growth opportunities in each segment.

Spartan Stores has established four key management priorities that focus on the longer-term strategy of the Company, including establishing a well-differentiated market offering for our Distribution and Retail segments, and additional strategies designed to create value for our shareholders, retailers and customers. These priorities are:

Retail sales growth: Continue refining our capital plan focusing on remodels, replacement stores, adjacent acquisitions, expansions and new stores to fill in existing markets, leverage investments in fuel centers and pharmacy operations to drive related supermarket customer traffic and continue to focus on category management initiatives, specifically focusing on fresh offerings.

Distribution sales growth: Focus on increasing penetration of existing customers, attracting new in-market customers and adjacent-state customers, continue to share "best retail practices" with customers, provide a superior value-added relationship and pursue acquisitions.

Margin enhancement: Continued focus on increasing penetration of private brand programs, enhancing offerings in our fresh department, lowering the cost of merchandise through vendor partnerships and improving retail shrink.

Selling, general and administrative ("SG&A") expense cost containment: Continue to focus on improving efficiency and general cost containment in all areas to allow us to remain cost competitive in the long-term and help offset recessionary impacts on our business in the short-term.

We believe significant progress has been made towards achieving these long-term priorities in recent years and we will continue to focus on these priorities.

Distribution Segment

Our Distribution segment provides a selection of approximately 43,000 stock-keeping units (SKU's), including dry groceries, produce, dairy products, meat, deli, bakery, frozen food, seafood, floral products, general merchandise, pharmacy and health and beauty care items to approximately 375 independent grocery stores and our 96 corporate-owned stores. Also included are approximately 3,200 private brand grocery and general merchandise items. Total revenues from our Distribution segment, including shipments to our corporate-owned stores which are eliminated in the consolidated financial statements, were \$1.8 billion for fiscal 2010.

Customers. Our Distribution segment supplies a diverse group of independent grocery store operators that range from a single store to supermarket chains with as many as 20 stores and our corporate-owned stores. Pricing to our customers is generally based upon a "cost plus" model for grocery, frozen, dairy, pharmacy and health and beauty care items and a "variable mark-up" model for meat, deli, bakery, produce, seafood, floral and general merchandise products.

Our Distribution customer base is very diverse, with no single customer, excluding corporate-owned stores, exceeding 5% of consolidated net sales. Our five largest Distribution customers (excluding corporate-owned stores) accounted for approximately 18% of our fiscal 2010 Distribution net sales. In addition, approximately 61% of Distribution net sales, including corporate-owned stores, are covered under supply agreements with our Distribution customers or are directly controlled by Spartan Stores.

Distribution Functions. Our Distribution business utilized approximately 1.8 million square feet of warehouse, distribution and office space through March 2010. Upon the closing of the Plymouth, Michigan distribution facility, discussed below, our Distribution business operates 1.4 million square feet of warehouse, distribution and office space. We supply our independent Distribution customers and our corporate-owned stores from our distribution center located in Grand Rapids, Michigan. We believe that our distribution facility is strategically located to efficiently serve our customers. We are continually evaluating our inventory movement and assigning SKU's to appropriate areas within our distribution center facilities to reduce the time required to stock and pick products in order to achieve additional efficiencies.

During the fourth quarter of fiscal 2010, we implemented the final stages of a comprehensive, multi-year supply chain optimization strategy. As a part of these optimization efforts we transitioned our Plymouth, Michigan dry grocery distribution operation to our Grand Rapids facility. This transition is expected to improve operational efficiency by increasing inventory turns, warehouse thru-put, and capacity utilization while reducing inventory investment requirements. This was another important step in our ongoing strategy of continuously improving efficiency and maintaining a low cost grocery distribution operation.

To supply our Distribution customers, we operate a fleet of approximately 105 tractors, 205 conventional dry trailers and 180 refrigerated trailers, substantially all of which are leased. In March 2010, 15 tractors and 5 conventional dry trailers were added to the fleet to support the supply chain network optimization initiative. This investment to our fleet meets new emission level requirements to support our sustainability initiatives as well as provides a world-class appearance on the road as we continue to introduce more *Spartan* private brand logo visibility. We take pride in our "rolling billboards" that showcase over 27 different colorful designs of *Spartan* private brand products and create positive visual impressions to the consumer as the fleet travels approximately 14 million miles annually.

During fiscal 2010, we successfully replaced the fleet on-board computer equipment with the new Fleet Management System, installed new dispatch software, began integration of driver payroll processing, and implemented trailer & door sensor tracking.

The Fleet Management System upgrade will provide significant benefits to our operations. On-board computer technology and related services such as hours of service, critical event reporting and performance monitoring, will help enhance our commitment to vehicle safety and efficiency of the fleet. The on-board system technological and communication advancements will allow for more real time data transfer and interaction between the fleet and our distribution centers. The new system software functionality uses a Web-Based concept as a service model eliminating the current application and database servers. In addition, this allows for future software updates to be handled wirelessly, eliminating the time company resources previously had to spend updating fleet equipment individually.

The new dispatch software will provide greater visibility to end-to-end transportation processes. This will allow users to control all dispatch activities from one central location, with real-time access to resources, simplified and controlled reporting, and enabling more cost effective labor and equipment resource alternatives to be utilized. Management can view all available shipments, determine load priorities and needs, match moves with available equipment resources, and provide data to expand and increase fleet inbound freight program profitability. In addition, payroll processing will be integrated with current operating systems to effectively and accurately manage department payroll, eliminating the need for manual input of driver payroll.

The installation of trailer and door sensor tracking was also implemented during fiscal 2010. This will work to ensure the security of assets and goods throughout the transit process, while providing remote visibility to refrigeration unit settings, service history, and fuel levels. This system will allow us to enhance our asset tracking and security strategies as well as give us the ability to complete chain of custody and cold chain integrity for contents in the transit process.

For fiscal 2011, we will continue to focus on leveraging technology to support efficiency improvements in equipment fuel economy and increased cube utilization of our trailers that should allow us to improve our sales dollars delivered per mile, resulting in a reduction in our cost to deliver products.

Additional Services. We also offer and provide many of our independent Distribution customers with value-added services, including:

| | |
|---|----------------------------------|
| Site identification and market analyses | Coupon redemption |
| Store planning and development | Product reclamation |
| Marketing, promotion and advertising | Printing |
| Technology and information services | Category management |
| Accounting and tax preparation | Real estate services |
| Human resource services | Construction management services |

Retail Segment

Our neighborhood market strategy distinguishes our stores from supercenters and limited assortment stores by emphasizing convenient locations, demographically targeted merchandise selections, high-quality fresh offerings, customer service, value pricing and community involvement.

Our Retail segment operates 96 retail supermarkets predominantly in midsize metropolitan, tourist and lake communities of Michigan. Our retail supermarkets are operated under the banners *Glen's Markets*, *Family Fare Supermarkets*, *D&W Fresh Markets*, *Felpausch Food Centers* and *VG's Food and Pharmacy*.

Our 96 retail supermarkets typically offer dry groceries, produce, dairy products, meat, frozen food, seafood, floral products, general merchandise, beverages, tobacco products, health and beauty care products, delicatessen items and bakery goods. Sixty-six of our supermarkets also offer pharmacy services. In addition to nationally advertised products, the stores carry private brand items, including our flagship *Spartan* brand, *Top Care*, a health and beauty care brand, *Valu Time*, a value brand, and *Full Circle*, a natural and organic brand. These private brand items provide above-average retail margins and we believe they help generate increased customer loyalty. See "Merchandising and Marketing - Corporate Brands." Our retail supermarkets range in size from approximately 20,300 to 65,800 total square feet and average approximately 42,000 total square feet per store.

We operate 24 fuel centers at our supermarket locations operating under the banners *D&W Quick Stop*, *Family Fare Quick Stop*, *Glen's Quick Stop*, *Felpausch Quick Stop* and *V.G.'s Quick Stop*. These fuel centers offer refueling facilities and in the adjacent convenience store, a limited variety of immediately consumable products. Our prototypical *Quick Stop* stores are approximately 1,100 square feet in size and are located adjacent to our supermarkets. We have experienced increases in supermarket sales upon opening fuel centers and initiating cross-merchandising activities. We are planning to continue to open additional fuel centers at our supermarket locations each year over the next few years.

We acquired our stores primarily as a result of acquisitions from January 1999 to December 2008. The following chart details the changes in the number of our retail stores over the last five fiscal years:

| Fiscal Year | Number of Stores at Beginning of Fiscal Year | Stores Acquired or Added During Fiscal Year | Stores Closed or Sold During Fiscal Year | Number of Stores at End of Fiscal Year |
|-------------|--|---|--|--|
| 2006 | 75 | - | 2 | 73 |
| 2007 | 73 | 16 | 2 | 87 |
| 2008 | 87 | 20 | 8 | 99 |
| 2009 | 99 | 17 | 16 | 100 |
| 2010 | 100 | - | 4 | 96 |

During fiscal 2010, we completed five major remodels of our stores in addition to many other limited remodels and store resets. In addition, we completed one store relocation, substantially completed the construction of one new store and opened five new fuel centers. Two stores were sold to Distribution segment customers.

We expect to continue making meaningful progress with our capital investment program during fiscal 2011, by completing the construction of one new store in May 2010, relocating one store, and opening two new fuel centers. We evaluate proposed retail projects based on demographics and competition within each market, and prioritize projects based on their expected returns on investment. Approval of proposed capital projects requires a projected internal rate of return that meets or exceeds our policy; however, we may undertake projects that do not meet this standard to the extent they represent required maintenance or necessary infrastructure improvements. We believe that focusing on such measures provides us with an appropriate level of discipline in our capital expenditures process.

Products

The Company offers a wide variety of grocery products, general merchandise and health and beauty care, pharmacy, fuel and other items and services. The Company's consolidated net sales include the net sales of the Company's corporate-owned stores and fuel centers and the net sales of the Company's Distribution business, net of sales to affiliated stores.

The following table presents sales by type of similar product and services:

| (Dollars in thousands) | 2010 | | 2009 | | 2008 | |
|--------------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|
| Non-perishables ⁽¹⁾ | \$ 1,367,298 | 53% | \$ 1,374,566 | 53% | \$ 1,315,621 | 53% |
| Perishables ⁽²⁾ | 895,005 | 35 | 904,999 | 35 | 857,278 | 35 |
| Fuel | 95,937 | 4 | 98,258 | 4 | 81,185 | 3 |
| Pharmacy | 193,716 | 8 | 198,915 | 8 | 222,738 | 9 |
| Consolidated net sales | \$ 2,551,956 | 100% | \$ 2,576,738 | 100% | \$ 2,476,822 | 100% |

(1) Consists primarily of general merchandise, grocery, beverages, snacks and frozen foods.

(2) Consists primarily of produce, dairy, meat, bakery, deli, floral and seafood.

Reporting Segment Financial Data

More detailed information about our reporting segments may be found in Note 16 to the consolidated financial statements included in Item 8, which is herein incorporated by reference. All of our sales and substantially all of our assets are in the United States of America.

Discontinued Operations

Certain of our retail and grocery distribution operations have been recorded as discontinued operations. Accordingly, for all years presented, all Consolidated Statements of Earnings information in this Annual Report on Form 10-K has been adjusted and the discontinued operations information is excluded, unless otherwise noted. Discontinued retail operations consist of certain stores that have been closed or sold. Discontinued Distribution operations consist of our Maumee, Ohio and Toledo, Ohio distribution centers that previously serviced retail stores that have since been closed or sold.

Marketing and Merchandising

General. We continue to align our marketing and merchandising strategies with current consumer behaviors by providing initiatives centered on value, health and wellness, and meals at home. These strategies focus on consumer driven programs to effectively leverage the use of category management principles and satisfy the consumers' needs.

Our over-arching focus on the consumer gives us keen insight about purchasing behavior and the flexibility to adapt to rapidly changing market conditions by making tactical adjustments to our marketing and merchandising programs that deliver even more tangible value to our customers. We have and will look to expand these offerings and partner with our independent customers over time to continue to realize incremental benefits.

As we expand our service offerings, we believe that we differentiate ourselves from our competitors by offering a full set of services, from value added services in our distribution segment to the addition of fuel centers and *Starbucks Coffee* shops in our retail stores. Our stores offer a program that provides fuel savings depending on shoppers' spending level and products purchased in the retail stores. Fuel centers have proven to be effective traffic-builders for fuel-purchasing customers who wish to take advantage of cross-promotions between the stores and the *Quick Stop* fuel centers. Consumers are focusing on value in today's economy, and coupons such as the fuel savings program are helping us to meet that need.

We continue to evolve our Pharmacy Plus program by connecting with the consumer and focusing on health and wellness. As noted above, 66 of our supermarkets now offer pharmacy services. We believe the pharmacy service offering is an important part of the consumer experience. We offer generic drugs for \$4 and \$10 as well as offer food solutions for preventative health and education for our customers.

In 2009, we introduced an innovative partnership that resulted in the formation of one of the first employer-pharmacy health benefit plans in Michigan, a model to leverage opportunities in health management involving employees, pharmacists, and physicians. Through the continued utilization of this plan, employees have access to a network of pharmacists specially prepared to provide individualized health and wellness information, and consultation as part of their benefits plan. The alliance is an important step in our health and wellness initiative, and offers covered employees the opportunity to utilize the benefits that the supermarkets offer for a total health and nutrition solution that the drugstore platform cannot provide.

During fiscal 2010, we completed the consolidation of our multiple pharmacy software systems into one system. This consolidation improves our ability to serve customers as well as reduce the cost and effort involved in supporting

a multiple system format.

We also implemented a customer loyalty card program in our *Glens' Markets* banner in the first quarter of fiscal 2010. This program is providing us with more sophisticated information to better understand our customers' purchasing behavior, which we are using to improve the effectiveness of our promotions, marketing and merchandising programs. We also expect the program will help solidify our long-term customer loyalty, improve

our sales growth opportunities and further strengthen our market position. We continue to enhance the program to improve our consumer offers and will continue to evaluate the program for roll out to other banners in the future.

At Spartan Stores, we are committed to being a consumer driven retailer. In fiscal 2009, we implemented a new customer satisfaction program that gives consumers a new channel for communicating their store experiences. Retail customers are randomly selected via point-of-sale receipts and invited to give us feedback by taking an online survey. Results of the survey will help assess overall customer satisfaction and identify how well we are executing on key drivers of customer satisfaction and loyalty. We value the opinions of our consumers and believe the best way to deliver a satisfactory shopping experience is to let customers tell us what they want and need. We believe this survey dialogue will better enable us to identify opportunities for continuous improvements for consistency and excellence in the overall consumer experience.

Corporate Brands. We currently market and distribute over 3,200 private brand items including our flagship *Spartan* brand, *Top Care*, a health and beauty care brand, *Valu Time*, a value brand, and *Full Circle*, a natural and organic brand. We believe that our private brand offerings are part of our most valuable strategic assets, demonstrated through customer loyalty and profitability. These product offerings are serving us particularly well as the consumer shifts toward a more value orientation.

We have worked diligently to develop a premier private brand program. We have added more than 1,500 corporate brand products to our consumer offer in the past six years, with approximately 300 products introduced in fiscal 2010. Our products are continually recognized for excellence, and this year marked the seventh consecutive year that we have been recognized for award-winning private brand products. These awards underscore our continued commitment to providing the consumer with quality products.

Additionally, we continue to focus on pursuing opportunities in fresh department consumer offerings with *Spartan Fresh Selections*, which was launched in fiscal 2010. The expansion of our *Spartan* fresh product offerings will include up to 70 new products in fiscal 2011.

Competition

Our Distribution and Retail segments operate in highly competitive markets, which typically result in low profit margins for the industry as a whole. Our Distribution and Retail segments compete with, among others, regional and national grocery distributors, independently owned retail grocery stores, large chain stores that have integrated wholesale and retail operations, mass merchandisers, limited assortment stores and wholesale membership clubs, some of whom have greater resources than we do. The principal competitive factors in the retail grocery business include the location and image of the store; the price, quality and variety of the perishable products; and the quality and consistency of service.

We believe we have developed and implemented strategies and processes that allow us to remain competitive in our Retail segment. We monitor planned store openings by our competitors and have established proactive strategies to respond to new competition both before and after the competitive store opening. Strategies to combat competition vary based on many factors, such as the competitor's format, strengths, weaknesses, pricing and sales focus. During the past three fiscal years, 24 competitor supercenters opened in markets in which we operate corporate-owned stores. Three additional openings are expected to occur during fiscal 2011 against our corporate-owned stores. As a result of these openings we believe the majority of our supermarkets compete with one, if not multiple, supercenters.

The primary competitive factors in the distribution business include price, product quality, variety and service. We believe our overall service level, defined as actual units shipped divided by actual units ordered, is among industry leading performance and that we effectively compete in our Distribution segment.

Seasonality

Our sales and operating performance vary with seasonality. Our first and fourth quarters are typically our lowest sales quarters and therefore operating results are generally lower during these two quarters. Additionally, these two quarters can be affected by the timing of the Easter holiday, which results in a strong sales week. Many northern Michigan stores are dependent on tourism and therefore, are most affected by seasons and weather patterns, including, but not limited to, the amount and timing of snowfall during the winter months and the range of temperature during the summer months. All quarters are 12 weeks, except for our third quarter, which is 16 weeks and includes the Thanksgiving and Christmas holidays.

Suppliers

We purchase products from a large number of national, regional and local suppliers of name brand and private brand merchandise. We have not encountered any material difficulty in procuring or maintaining an adequate level of products to serve our customers. No single supplier accounts for more than 8% of our purchases. We continue to develop strategic relationships with key suppliers. We believe this will prove valuable in the development of enhanced promotional programs and consumer value perceptions.

Intellectual Property

We own valuable intellectual property, including trademarks and other proprietary information, some of which are of material importance to our business.

Technology

We invest in technology as a means of maximizing the efficiency of our operations, improving service to our customers, and where possible, deploying technology to provide a competitive advantage in the marketplace.

Supply Chain. During fiscal 2010, we implemented a new on-board transportation management system, a new inventory optimization system for use in our distribution centers and a yard and dock management system for campus wide scheduling in our distribution centers.

Retail Systems. We installed a new price optimization system for retail pricing in our corporate stores. During fiscal 2010, we continued the installation of our computer-assisted ordering and perpetual inventory system in our corporate-owned stores for grocery, frozen, dairy, general merchandise and health and beauty care. This system is now being expanded into produce and packaged meats. Installation of a new pharmacy system was completed in all of our corporate pharmacies. We deployed and have continued to enhance a customer loyalty system in one of our regions. We implemented a scan based trading system for use in our corporate locations and it is now being expanded to additional vendors.

Financial Systems. During fiscal 2010, we upgraded our human resource and payroll systems and developed a new union labor administration system. We completed a number of other enhancements to our organizational management system. We continued the implementation of a new labor management system in our corporate retail sites. We are in the process of installing a new purchasing system for non-product items.

Information Technology. We completed a major upgrade to our consolidated data center server environment and continued to enhance the processing infrastructure at our back up data center. As a result of the Payment Card Industry Data Security Standard (PCI-DSS) we have made major investments in our security systems and processes.

Subsidiaries

Our Distribution segment consists primarily of our wholly-owned subsidiary, Spartan Stores Distribution, LLC. We operate our Retail segment through our wholly-owned subsidiary, Seaway Food Town, Inc. and its respective subsidiaries.

Associates

We currently employ approximately 8,800 associates, 4,400 of which are full-time and 4,400 of which are part-time.

Unions represent approximately 8% of our associates. A contract covering 720 distribution center and transportation associates expires in October 2011.

We consider our relations with our union and non-union associates to be good and have not had any material work stoppages in over twenty years.

Regulation

We are subject to federal, state and local laws and regulations covering the purchase, handling, sale and transportation of our products. Several of our products are subject to federal Food and Drug Administration regulation. We believe that we are in substantial compliance with Food and Drug Administration and other federal, state and local laws and regulations governing our businesses.

Forward-Looking Statements

The matters discussed in this Item 1 include forward-looking statements. See "Forward-Looking Statements" at the beginning of this Annual Report on Form 10-K.

Available Information

The address of our web site is www.spartanstores.com. The inclusion of our website address in this Form 10-K does not include or incorporate by reference the information on or accessible through our website, and you should not consider information contained on or accessible through those websites as part of this Form 10-K. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments to those reports) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act available on our web site as soon as reasonably practicable after we electronically file or furnish such materials with the Securities and Exchange Commission. Interested persons can view such materials without charge by clicking on "Investor Information" and then "SEC Filings" on our web site. Spartan Stores is an "accelerated filer" within the meaning of Rule 12b-2 under the Securities Exchange Act.

Item 1A. Risk Factors

Our business faces many risks. If any of the events or circumstances described in the following risk factors occurs, our financial condition or results of operations may suffer, and the trading price of our common stock could decline. This discussion of risk factors should be read in conjunction with the other information in this Annual Report on Form 10-K. All of our forward-looking statements are affected by the risk factors discussed in this item and this discussion of risk factors should be read in conjunction with the discussion of forward-looking statements which appears at the beginning of this report.

We operate in an extremely competitive industry. Many of our competitors are much larger than we are and may be able to compete more effectively.

Our Distribution and Retail segments compete with, among others, regional and national grocery distributors, independently owned retail grocery stores, large chain stores that have integrated wholesale and retail operations, mass merchandisers, limited assortment stores and wholesale membership clubs, some of whom have greater resources than we do.

This competition may result in reduced profit margins and other harmful effects on us and the independent retail grocery stores that we supply. Ongoing industry consolidation could result in our loss of customers that we

currently supply and could confront our retail operations with competition from larger and better-capitalized chains in existing or new markets. We may not be able to compete successfully in this environment.

Government regulation could harm our business.

Our business is subject to extensive governmental laws and regulations including, but not limited to, employment and wage laws and regulations, regulations governing the sale of alcohol and tobacco, minimum wage requirements, working condition requirements, public accessibility requirements, citizenship requirements, and other laws and regulations. A violation or change of these laws could have a material effect on our business, financial condition and results of operations.

Like other companies that sell food, our stores are subject to various federal, state, local, and foreign laws, regulations, and administrative practices affecting our business. We must comply with numerous provisions regulating health and sanitation standards, facilities inspection, food labeling, and licensing for the sale of food, drugs, and alcoholic beverages.

We cannot predict the nature of future laws, regulations, interpretations, or applications, or determine what effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state, local, and foreign regulatory requirements would have on our future business. They could, however, require that we recall or discontinue sale of certain products, make substantial changes to our facilities or operations, or otherwise result in substantial increases in operating expense. Furthermore, if the federal Employee Free Choice Act is passed it could adversely affect our flexibility to run our business in the most efficient manner to remain competitive. Any or all of such requirements could have an adverse effect on our results of operations and financial condition.

We are subject to state and federal environmental regulations.

Under various federal, state and local laws, ordinances and regulations, we may, as the owner or operator of our locations, be liable for the costs of removal or remediation of contamination at these or our former locations, whether or not we knew of, or were responsible for, the presences of such contamination. The failure to properly remediate such contamination may subject us to liability to third parties and may adversely affect our ability to sell or lease such property or to borrow money using such property as collateral.

Compliance with existing and future environmental laws regulating underground storage tanks may require significant capital expenditures and increased operating and maintenance costs. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial.

In the future, we may incur substantial expenditures for remediation of contamination that has not been discovered at existing or acquired locations. We cannot assure you that we have identified all environmental liabilities at all of our current and former locations; that material environmental conditions not known to us do not exist; that future laws, ordinances or regulations will not impose material environmental liability on us; or that a material environmental condition does not otherwise exist as to any one or more of our locations. In addition, failure to comply with any environmental laws, ordinances or regulations or an increase in regulations could adversely affect our operating results and financial condition.

Safety concerns regarding our products could harm our business.

Concerns regarding the safety of food products sold by us could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply for some or all of their food needs, even if the basis for concern is outside of our control. Any loss of confidence on the part of our customers would be difficult and costly to

re-establish. Any real or perceived issue regarding the safety of any food items sold by us, regardless of the cause, could have a substantial and adverse effect on our business.

We may not be able to implement our strategy of growth through acquisitions.

Part of our growth strategy involves selected acquisitions of additional retail grocery stores or grocery store chains. We may not be able to implement this part of our growth strategy or ultimately be successful. We may not

be able to identify suitable acquisition candidates in the future, complete acquisitions or obtain the necessary financing.

Because we operate in the Distribution business, future acquisitions of retail grocery stores could result in us competing with our independent grocery store customers and could have adverse effects on existing business relationships with our distribution customers.

The success of our retail store acquisitions will depend, in part, on whether we obtain the business synergies and related cost savings that we anticipated in connection with these transactions and any future acquisitions. Accordingly, we may not achieve forecasted results and long-term business goals.

Our business is subject to risks from regional economic conditions and other factors in our markets.

Our business is sensitive to changes in general economic conditions. The United States economy and financial markets have declined and experienced volatility due to uncertainties related to energy prices, availability of credit, difficulties in the banking and financial services sector, the decline in the housing market, diminished market liquidity, falling consumer confidence and rising unemployment rates. Furthermore, most of our sales are to customers located in Michigan and Indiana and the Michigan economy in particular is dependent upon the automotive industry which is evolving. Michigan has the highest unemployment rate in the country. These adverse economic conditions in our markets, potential reduction in the populations in our markets and the loss of purchasing power by residents in our markets could reduce the amount of groceries purchased, adversely affecting our revenues and profitability. Further adverse developments in the automotive and auto supply industries in Michigan and Indiana could have an additional adverse affect on purchasing power of our customers and prospective customers in some markets served by our retail stores and those of our distribution customers. This could lead to additional reductions in consumer spending, to consumers trading down to less expensive mix of products or to consumers trading down to discounters, all of which may affect our financial condition and results of operations.

In addition, many of our retail grocery stores, as well as stores operated by our independent grocery store customers, are located in areas of northern Michigan that are heavily dependent upon tourism. Unseasonable weather conditions and the economic conditions discussed above may decrease tourism activity and could result in decreased sales by our retail grocery stores and decreased sales to our distribution customers, adversely affecting our business.

We may be unable to retain our key management personnel.

Our success depends to a significant degree upon the continued contributions of senior management. The loss of any key member of our management team may prevent us from implementing our business plans in a timely manner. We cannot assure you that successors of comparable ability will be identified and appointed and that our business will not be adversely affected.

A number of our associates are covered by collective bargaining agreements.

Certain of our associates in our distribution business segment are covered by a collective bargaining agreement which expires in October 2011. In future negotiations with the labor union, we expect that rising health care, pension and other employee benefit costs, among other issues, will continue to be important topics of negotiation. Upon the expiration of our collective bargaining agreement, work stoppages by the affected workers could occur if we are unable to negotiate an acceptable contract with the labor union. This could significantly disrupt our operations. Further, if we are unable to control health care and pension costs provided for in the collective bargaining agreement, we may experience increased operating costs and an adverse impact on future results of operations.

Unions may attempt to organize additional employees.

While we believe that relations with our employees are good, we cannot be assured that we will not become the target of campaigns similar to those faced by our competitors. The potential for unionization could increase if the federal Employee Free Choice Act or similar legislation is passed. We respect our employees' right to unionize or not to unionize. However, the unionization of a significant portion of our workforce could increase our overall costs

at the affected locations and adversely affect our flexibility to run our business in the most efficient manner to remain competitive or acquire new business. In addition, significant union representation would require us to negotiate wages, salaries, benefits and other terms with many of our employees collectively and could adversely affect our results of operations by increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

Costs related to multi-employer pension plans and other postretirement plans could increase.

We contribute to several multi-employer pension plans based on obligations arising under collective bargaining agreements. These plans are not administered by or in any way controlled by us and we have relatively little control over the level of contributions we are required to make to these plans. Currently, a number of these multi-employer plans are underfunded. As a result, contributions are scheduled to increase and we expect that contributions to these plans may be subject to further increases. Additionally, the benefit levels and related issues will continue to create collective bargaining challenges. The amount of any increase or decrease in our required contributions to these multi-employer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plans, governmental regulations, the actual return on assets held in the plan, the continued viability and contributions of other employers which contribute to the plan, and the potential payment of a withdrawal liability if we choose to exit a market, among other factors.

Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur a withdrawal liability to the plan, which represents the portion of the plan's underfunding that is allocable to the withdrawing employer under very complex actuarial and allocation rules. Withdrawal liabilities may be incurred under a variety of circumstances, including selling, closing or substantially reducing employment at a facility. Withdrawal liabilities could be material, and potential exposure to withdrawal liabilities may influence business decisions and could cause the company to forgo business opportunities.

We maintain defined benefit retirement plans for substantially all of our employees that do not participate in multi-employer pension plans. Expenses associated with the defined benefit plans may significantly increase with changes to actuarial assumptions or investment returns on plan assets that are less favorable than projected. In addition, changes in our funding status could adversely affect our financial position.

Risks associated with insurance plan claims could increase future expenses.

We use a combination of insurance and self-insurance to provide for potential liabilities for workers' compensation, automobile and general liability, property insurance, director and officers' liability insurance, and employee health care benefits. The liabilities that have been recorded for these claims represent our best estimate, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through March 27, 2010. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, and changes in discount rates could all affect the level of reserves required and could cause material future expense to maintain reserves at appropriate levels.

Costs related to associate healthcare benefits could increase.

We provide health benefits for a large number of associates. Our costs to provide such benefits continue to increase annually and recent legislative and private sector initiatives regarding healthcare reform are likely to result in significant changes to the U.S. healthcare system. At this time we are not able to determine the impact that healthcare reform will have on the Company-sponsored healthcare plans. In addition, we participate in various multi-employer health plans for our union associates, and we are required to make contributions to these plans in amounts established

under collective bargaining agreements. The cost of providing benefits through such plans has escalated rapidly in recent years. The amount of any increase or decrease in our required contributions to these multi-employer plans will depend upon many factors, many of which are beyond our control. If we are unable to control the costs of providing healthcare to associates, we may experience increased operating costs, which may adversely affect our financial condition and results of operations.

Changes in vendor promotions or allowances, including the way vendors target their promotional spending, and our ability to effectively manage these programs could significantly impact our margins and profitability.

We cooperatively engage in a variety of promotional programs with our vendors. As the parties assess the results of specific promotions and plan for future promotions, the nature of these programs and the allocation of dollars among them change over time. We manage these programs in order to maintain or improve margins while at the same time increasing sales for us and for the vendors. A reduction in overall promotional spending or a shift in promotional spending away from certain types of promotions that we and our distribution customers have historically utilized could have a significant impact on profitability.

Threats to security or the occurrence of a health pandemic could harm our business.

Our business could be severely impacted by wartime activities, threats or acts of terrorism or a widespread health pandemic may adversely impact our business by disrupting delivery of products to our corporate stores or our independent retail customers, by affecting our ability to appropriately staff our stores and by causing customers to avoid public places.

We have large, complex information technology systems that are important to our business operations. Although we have implemented security programs and disaster recovery facilities and procedures, security could be compromised and systems disruptions, data theft or other criminal activity could occur. This could result in a loss of sales or profits or cause us to incur significant costs to reimburse third parties for damages.

Severe weather and natural disasters could harm our business.

Severe weather conditions and natural disasters, whether a result of climate change or otherwise, could affect the suppliers from whom we purchase products and could cause disruptions in our operations. Additionally, unseasonably adverse climatic conditions that impact growing conditions and the crops of food producers may adversely affect the availability or cost of certain products.

Damage to our facilities could harm our business.

A majority of the product we supply to our retail stores and distribution customers flows through our distribution center. While we believe we have adopted commercially reasonable precautions, insurance programs, and contingency plans, destruction of, or substantial damage to our distribution center due to natural disaster, severe weather conditions, accident, terrorism, or other causes could substantially compromise our ability to distribute products to our retail stores and distribution customers. This could result in a substantial loss of sales, profits and asset value.

We are subject to restrictive covenants imposed by our credit facility.

Our ability to borrow additional funds is governed by the terms of our credit facilities. The credit facilities contain financial and other covenants that, among other things, limit the Company's ability to draw down the full amount of facility, incur additional debt outside of the credit facility, create new liens on property, make acquisitions, or pay dividends. These covenants may affect our operating flexibility and may require us to seek the consent of the lenders to certain transactions that we may wish to carry out. We are not currently restricted by these covenants. We believe that cash generated from operating activities and available borrowings under our credit facility will be sufficient to meet anticipated requirements for working capital, capital expenditures, and debt service obligations for the foreseeable future. However, there can be no assurance that our business will continue to generate cash flow at or above current levels or that we will maintain our ability to borrow under our credit facility.

Item 1B. **Unresolved Staff Comments**
None.

Item 2. Properties
Distribution Segment Real Estate

The following table lists the location, approximate size and ownership of the facilities used in our Distribution segment:

| Facilities | Location | Total Square Feet | Ownership |
|---------------------------------------|------------------|--------------------------|------------------|
| Dry grocery | Grand Rapids, MI | 585,492 | Owned |
| Fresh (refrigerated) | Grand Rapids, MI | 306,522 | Owned |
| General merchandise | Grand Rapids, MI | 232,700 | Owned |
| General office (including print shop) | Grand Rapids, MI | 127,323 | Owned |
| Transportation and salvage | Grand Rapids, MI | 78,760 | Owned |
| Warehouse and office | Grand Rapids, MI | 47,500 | Leased |
| Dry grocery | Plymouth, MI | 414,700 | Leased |
| Total | | 1,792,997 | |

The Company believes that its distribution facilities are generally well maintained, are generally in good operating condition, have sufficient capacity and are suitable and adequate to carry on the Company's distribution business. In the fourth quarter of fiscal 2010 we began transitioning the Plymouth warehouse dry grocery operations to Grand Rapids. The transition was completed in the first quarter of fiscal 2011, therefore, the facility is no longer being used in our operations. The lease on the Plymouth facility expires in October 2010.

Retail Segment Real Estate

The following table lists the retail banner, number of stores, geographic region, approximate total square footage under the banner, average store size (in square feet) and ownership of our retail supermarkets:

| Retail Banner | Number of Stores (Including Fuel Centers) | Geographic Region | Total Square Feet | Average Store Size | Ownership |
|--------------------------|--|-------------------------------|--------------------------|---------------------------|------------------|
| Family Fare Supermarkets | 27 | Western and Central Michigan | 1,233,489 | 45,685 | Leased |
| Glen's Markets | 34 | Northern and Central Michigan | 1,232,431 | 36,248 | Leased |
| D&W Fresh Markets | 10 | Western Michigan | 481,986 | 48,199 | Leased |
| D&W Fresh Markets | 1 | Central Michigan | 34,460 | 34,460 | Owned |
| Felpausch Food Centers | 8 | Western and Central Michigan | 292,050 | 36,506 | Leased |
| VG's Food and Pharmacy | 16 | Eastern Michigan | 758,918 | 47,432 | Leased |

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| | | | |
|--------------|-----------|------------------|---------------|
| Total | <u>96</u> | <u>4,033,334</u> | <u>42,014</u> |
|--------------|-----------|------------------|---------------|

We also own one fuel center in Western Michigan that is not included in a supermarket location but is adjacent to our corporate headquarters.

Item 3. Legal Proceedings

Various lawsuits and claims, arising in the ordinary course of business, are pending or have been asserted against Spartan Stores and its subsidiaries. While the ultimate effect of such lawsuits and claims cannot be predicted with certainty, management believes that their outcome will not result in a material adverse effect on the consolidated financial position, operating results or liquidity of Spartan Stores.

Item 4. Reserved

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Spartan Stores common stock is traded on the NASDAQ Global Select Market under the trading symbol "SPTN."

Stock sale prices are based on transactions reported on the NASDAQ Global Select Market. Information on quarterly high and low sales prices for Spartan Stores' common stock appears in Note 17 to the consolidated financial statements and is incorporated here by reference. At May 10, 2010 there were approximately 505 shareholders of record of Spartan Stores common stock.

The Company has paid a quarterly cash dividend of \$0.05 per common share since the fiscal 2006 fourth quarter. Under its senior revolving credit facility, the Company is generally permitted to pay dividends in any fiscal year up to an amount such that all cash dividends, together with any cash distributions or share repurchases, do not exceed \$15.0 million. Although we expect to continue to pay a quarterly cash dividend, adoption of a dividend policy does not commit the board of directors to declare future dividends. Each future dividend will be considered and declared by the board of directors at its discretion. The ability of the board of directors to continue to declare dividends will depend on a number of factors, including our future financial condition and profitability and compliance with the terms of our credit facilities.

The equity compensation plans table in Item 12 is here incorporated by reference.

There were no transactions regarding Company purchases of its own common stock during the fourth quarter. The Company has no public stock repurchase plans or programs.

Performance Graph

Set forth below is a graph comparing the cumulative total shareholder return on Spartan Stores' common stock to that of the Russell 2000 Total Return Index and the NASDAQ Retail Trade Index, over a period beginning March 24, 2005 and ending on March 26, 2010.

Cumulative total shareholder return is measured by the sum of (1) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (2) the difference between the share price at the end and the beginning of the measurement period, divided by the share price at the beginning of the measurement period.

The dollar values for total shareholder return plotted above are shown in the table below:

| | March 24, 2005 | March 24, 2006 | March 30, 2007 | March 28, 2008 | March 27, 2009 | March 26, 2010 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Spartan Stores | \$ 100.00 | \$ 116.09 | \$ 249.84 | \$ 191.32 | \$ 144.19 | \$ 139.72 |
| Russell 2000 Total Return Index | 100.00 | 123.85 | 133.17 | 115.24 | 73.95 | 118.36 |
| NASDAQ Retail Trade | 100.00 | 113.21 | 116.36 | 97.28 | 73.81 | 110.39 |

The information set forth under the Heading "Performance Graph" shall not be deemed to be "soliciting material" or to be "filed" with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, except to the extent that the registrant specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Exchange Act.

Item 6. Selected Financial Data

The following table provides selected historical consolidated financial information of Spartan Stores. The historical information was derived from our audited consolidated financial statements as of and for each of the five fiscal years ended March 25, 2006 through March 27, 2010. As noted elsewhere in this Form 10-K, for all years presented, Consolidated Statements of Earnings information in this Form 10-K has been adjusted for the reclassification of discontinued operations information, unless otherwise noted. See Note 15 to the consolidated financial statements in Item 8 for additional information on discontinued operations. For all years presented, Consolidated Balance Sheets and Consolidated Statements of Earnings information in this Form 10-K has been adjusted for the adoption of the provisions of Accounting Standards Codification (ASC) Subtopic 470-20 (originally issued as Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)") and for the adoption of updated provisions of ASC Topic 260 (originally issued as FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"). See Note 2 to the consolidated financial statements in Item 8 for additional information on the adoption of the updated ASC provisions. Fiscal 2007 consisted of 53 weeks. All other years presented consisted of 52 weeks.

(In thousands, except per share data)

| | Year Ended | | | | |
|---|-------------------|----------------------------------|----------------------------------|----------------------------------|-------------------|
| | March 27, 2010 | March 28, 2009 ^(C) | March 29, 2008 ^(C) | March 31, 2007 ^(C) | March 25, 2006 |
| Statements of Operations Data: | | | | | |
| Net sales | \$ 2,551,956 | \$ 2,576,738 | \$ 2,476,822 | \$ 2,206,270 | \$ 1,872,854 |
| Cost of sales | 1,993,306 | 2,040,625 | 1,981,854 | 1,774,816 | 1,527,736 |
| Gross margin | 558,650 | 536,113 | 494,968 | 431,454 | 345,118 |
| Selling, general and administrative expenses | 493,832 | 463,369 | 433,346 | 378,324 | 310,013 |
| Restructuring and asset impairment costs ^(A) | 6,154 | - | - | 4,464 | 985 |
| Operating earnings | 58,664 | 72,744 | 61,622 | 48,666 | 34,120 |
| Interest expense | 16,394 | 14,138 | 13,842 | 12,132 | 7,138 |
| Other, net | (138) | (341) | (287) | (647) | (1,317) |
| Earnings before income taxes and discontinued operations | 42,408 | 58,947 | 48,067 | 37,181 | 28,299 |
| Income taxes | 16,475 | 23,914 | 17,216 | 13,013 | 9,650 |
| Earnings from continuing operations | 25,933 | 35,033 | 30,851 | 24,168 | 18,649 |
| Earnings (loss) from discontinued operations, net of taxes ^(B) | (375) | 1,838 | 1,795 | 992 | (477) |
| Net earnings | \$ 25,558 | \$ 36,871 | \$ 32,646 | \$ 25,160 | \$ 18,172 |
| Basic weighted average shares outstanding | 22,406 | 22,102 | 21,847 | 21,463 | 20,796 |
| | 22,480 | 22,262 | 22,058 | 21,738 | 21,174 |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| Diluted weighted average shares outstanding | | | | | |
| Basic earnings from continuing operations per share | \$ 1.16 | \$ 1.59 | \$ 1.41 | \$ 1.13 | \$ 0.89 |
| Diluted earnings from continuing operations per share | 1.15 | 1.57 | 1.40 | 1.11 | 0.88 |
| Basic earnings per share | 1.14 | 1.67 | 1.49 | 1.17 | 0.87 |
| Diluted earnings per share | 1.14 | 1.66 | 1.48 | 1.16 | 0.86 |
| Cash dividends declared per share | 0.20 | 0.20 | 0.20 | 0.20 | 0.05 |

Balance Sheet Data:

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Total assets | \$ 753,481 | \$ 723,311 | \$ 609,395 | \$ 487,499 | \$ 378,597 |
| Property and equipment, net | 247,961 | 234,806 | 183,185 | 143,213 | 115,178 |
| Working capital | 15,739 | 20,969 | 20,499 | 27,213 | 20,736 |
| Long-term debt and capital lease obligations | 181,066 | 194,115 | 118,742 | 106,341 | 64,015 |
| Shareholders' equity | 273,905 | 247,205 | 221,406 | 172,741 | 145,417 |

- (A) See Note 5 to Consolidated Financial Statements
- (B) See Note 15 to Consolidated Financial Statements
- (C) Spartan Stores acquired certain assets and assumed certain liabilities of *VG's* in fiscal 2009, *Feltpausch* in fiscal 2008 and *D&W* in fiscal 2007. See Note 3 to the Consolidated Financial Statements set forth in Part II, Item 8 of this report.

Historical data is not necessarily indicative of the Company's future results of operations or financial condition. See discussion of "Risk Factors" in Part I, Item 1A of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this report, and the Consolidated Financial Statements and notes thereto in Part II, Item 8 of this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Executive Overview

Spartan Stores is a leading regional grocery distributor and grocery retailer, operating principally in Michigan and Indiana.

We currently operate two reportable business segments: Distribution and Retail. Our Distribution segment provides a full line of grocery, general merchandise, health and beauty care, frozen and perishable items to approximately 375 independently owned grocery stores and our 96 corporate owned stores. Our Retail segment operates 96 retail supermarkets in Michigan under the banners *Glen's Markets*, *Family Fare Supermarkets*, *D&W Fresh Markets*, *Felpausch Food Centers*, and *VG's Food and Pharmacy*, and 24 fuel centers/convenience stores, included at our supermarket locations, under the banners *Glen's Quick Stop*, *Family Fare Quick Stop*, *D&W Fresh Markets Quick Stop*, *Felpausch Quick Stop*, and *VG's Quick Stop*. Our retail supermarkets have a "neighborhood market" focus to distinguish them from supercenters and limited assortment stores.

Our sales and operating performance vary with seasonality. Our first and fourth quarters are typically our lowest sales quarters and therefore operating results are generally lower during these two quarters. Additionally, these two quarters can be affected by the timing of the Easter holiday, which results in a strong sales week. Many northern Michigan stores are dependent on tourism and, therefore, are most affected by seasons and weather patterns, including, but not limited to, the amount and timing of snowfall during the winter months and the range of temperature during the summer months. All quarters are 12 weeks, except for our third quarter, which is 16 weeks and includes the Thanksgiving and Christmas holidays.

We have established four key management priorities that focus on the longer-term strategy of the Company, including establishing a well-differentiated market offering for our Distribution and Retail segments, and additional strategies designed to create value for our shareholders, retailers and customers. These priorities are:

Retail sales growth: Continue refining our capital plan focusing on remodels, replacement stores, adjacent acquisitions, expansions and new stores to fill in existing markets, leverage investments in fuel centers and pharmacy operations to drive related supermarket customer traffic and continue to focus on category management initiatives, specifically focusing on the continued enhancement of the value offered our consumers.

Distribution sales growth: Focus on increasing penetration of existing customers, attracting new in-market customers and adjacent-state customers, continue to share "best retail practices" with customers, provide a superior value-added relationship and pursue acquisitions.

Margin enhancement: Continued focus on increasing penetration of private brand programs, enhancing offerings in our fresh department, lowering the cost of merchandise through vendor partnerships and improving retail shrink.

Selling, general and administrative expense cost containment: Continue to focus on improving efficiency and general cost containment in all areas to allow us to remain cost competitive in the long-term and help offset recessionary impacts on our business in the short-term.

We continued the execution of our capital investment program by completing one store relocation, completing five major store remodels, substantially completing one new store and opening five new fuel centers. We also acquired three pharmacies raising the total number of stores with pharmacies to 66. We introduced approximately 80 new private brand offerings in fresh food categories.

We launched four retail programs in fiscal 2010 that are intended to enhance the value delivered to consumers. As part of our emphasis on consumer health and wellness, we began a major nutrition guide program in our *D&W* and *Family Fare* retail stores early in the third quarter. Our program introduces new shelf tags that clearly and simply identify the health and nutrition benefits on approximately 16,000 products. The labels are color coded by FDA category, and we believe are easy to understand, simple to follow and help consumers to quickly identify the health and nutrition attributes of the food they buy. We also launched our Michigan's Best initiative which clearly identifies and promotes 2,400 products grown, made or processed in Michigan. We also implemented a

customer loyalty card program in our *Glens' Markets* banner late in the first quarter of fiscal 2010. This program is beginning to provide us with more sophisticated information to better understand our customers' purchasing behavior, which we are using to improve the effectiveness of our promotions, marketing and merchandising programs. We also expect the program will help solidify our long-term customer loyalty, improve our sales growth opportunities and further strengthen our market position. We continue to enhance the program to improve our consumer offers and will continue to evaluate the program for roll out to other banners in the future. In addition, we also implemented our first continuous customer satisfaction monitoring system which allows customers to rate individual stores on multiple dimensions of shopping satisfaction.

At the beginning of the fourth quarter of fiscal 2010, we began implementing the conclusions of a comprehensive, multi-year supply chain optimization study. This is another important step in our ongoing strategy of maintaining a low cost grocery distribution operation. We reached an agreement with the Teamsters Local 337 to transition our Plymouth, Michigan dry grocery distribution operation to our Grand Rapids, Michigan facility. The transition was substantially complete at the end of the fourth quarter of fiscal 2010. During the past several years, we have prudently invested capital to upgrade our distribution system technology, expand our produce ripening operations, upgrade our entire fleet of trucks, and completed a major warehouse re-racking project at our Grand Rapids grocery distribution center that significantly increased warehouse capacity and improved space utilization. In addition to improved customer service through a centralized Grand Rapids facility, this decision along with our other cost reduction initiatives will also ensure better alignment between the current level of business activity and our cost structure. In conjunction with the warehouse optimization, we implemented another administrative cost reduction initiative by eliminating certain positions. As a result of the closing of the warehouse facility and elimination of certain administrative positions, we incurred charges of \$4.2 million for severance, asset impairment and other related one-time costs. We also expect to incur a fiscal 2011 first quarter after tax net benefit of approximately \$0.5 million for a favorable LIFO inventory benefit due to inventory reductions, net of lease termination and additional distribution center closing costs that are anticipated to occur during the quarter. Annualized after tax cost savings from these initiatives are expected to range from approximately \$2.0 million to \$2.5 million.

We introduced over 300 new private brand products during fiscal 2010. These products are typically less expensive and produce higher gross margins than national brands and tend to be more frequently purchased by consumers in challenging economic times. In fiscal 2011, we plan to expand our private brand offerings and are targeting over 300 items.

Although we expect the near term economic climate in markets where we operate to remain challenging, we are encouraged by the recent, more favorable macro economic trends, including stabilizing employment trends, more robust automobile sales and a favorable trend in consumer sentiment. We believe that these signals indicate the early stages of an economic recovery which should bode well for the Michigan economy and our markets. We are also encouraged by the lower rate of product price deflation and inflationary trends in certain product categories such as produce. As a result of these developments, we expect a more favorable operating environment to develop in the second half of fiscal 2011.

The matters discussed in this Item 7 include forward-looking statements. See "Forward-Looking Statements" at the beginning and "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Results of Operations

The following table sets forth items from our Consolidated Statements of Earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

| | Percentage of Net Sales | | | Percentage Change | |
|--|-------------------------|-------------------|-------------------|-------------------|-----------|
| | March 27, 2010 | March 28, 2009 | March 29, 2008 | 2010/2009 | 2009/2008 |
| Net sales | 100.0 | 100.0 | 100.0 | (1.0) | 4.0 |
| Gross margin | 21.9 | 20.8 | 20.0 | 4.2 | 8.3 |
| Selling, general and administrative expenses | 19.4 | 18.0 | 17.5 | 6.6 | 6.9 |
| Restructuring and asset impairment costs | 0.2 | - | - | * | - |
| Operating earnings | 2.3 | 2.8 | 2.5 | (19.4) | 18.0 |
| Other income and expenses | 0.6 | 0.5 | 0.6 | 17.8 | 1.7 |
| Earnings before income taxes and discontinued operations | 1.7 | 2.3 | 1.9 | (28.1) | 22.6 |
| Income taxes | 0.7 | 0.9 | 0.7 | (31.1) | 38.9 |
| Earnings from continuing operations | 1.0 | 1.4 | 1.2 | (26.0) | 13.6 |
| (Loss) earnings from discontinued operations, net of taxes | 0.0 | 0.0 | 0.1 | (120.4) | 2.4 |
| Net earnings | 1.0 | 1.4 | 1.3 | (30.7) | 12.9 |

* Percentage change is not meaningful

Results of Continuing Operations for the Fiscal Year Ended March 27, 2010 Compared to the Fiscal Year Ended March 28, 2009

Net Sales. Net sales decreased \$24.8 million, or 1.0%, from \$2,576.7 million in fiscal 2009 to \$2,551.9 million in fiscal 2010. The sales decrease was primarily driven by the economic and competitive environments, product price deflation in certain primary product categories and the closure or sale of six retail stores during fiscal 2010 and 2009.

Net sales in our Distribution segment, after intercompany eliminations, decreased \$157.3 million, or 12.6%, from \$1,248.6 million to \$1,091.3 million primarily due to the elimination of sales to VG's stores of \$110.8 million (due to our acquisitions of the stores), negative 3.3% comparable sales to existing independent customers, and lower sales in our marginally profitable pharmacy distribution program of \$10.5 million.

Net sales in our Retail segment increased \$132.6 million, or 10.0%, from \$1,328.1 million to \$1,460.7 million. The sales increase was primarily due to incremental sales related to the VG's acquisition of \$199.2 million, partially offset by a decrease in supermarket comparable store sales of \$56.0 million and lost sales of \$12.1 million relating to six stores that were closed or sold in fiscal 2010 and 2009. Total retail comparable store sales decreased 4.9 percent in fiscal 2010 principally due to the weakened economic environment. We define a retail store as comparable when it is in operation for 14 accounting periods (a period equals four weeks), and we include remodeled, expanded and relocated stores in comparable stores.

Gross Margin. Gross margin represents net sales less cost of sales, which include purchase costs and promotional allowances. Vendor allowances that relate to our buying and merchandising activities consist primarily of promotional allowances, which are generally allowances on purchased quantities and, to a lesser extent, slotting allowances, which are billed to vendors for our merchandising costs, such as setting up warehouse infrastructure. Vendor allowances associated with product cost are recognized as a reduction in cost of sales when the product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms.

Gross margin increased by \$22.5 million, or 4.2%, from \$536.1 million to \$558.6 million. As a percent of net sales, gross margin increased from 20.8% to 21.9%. The gross margin rate improvement was due principally to

an increase in the mix of higher margin retail sales as a percentage of consolidated sales and slightly higher margin rates in both segments due to a decrease in LIFO expense of \$2.7 million.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses consist primarily of salaries and wages, employee benefits, warehousing costs, store occupancy costs, utilities, equipment rental, depreciation and other administrative costs.

SG&A expenses increased \$30.5 million, or 6.6%, from \$463.4 million to \$493.8 million, and were 19.4% of net sales compared to 18.0% last year. The net increase in SG&A is due primarily to the following:

Additional operating expenses of \$49.7 million associated with having the acquired VG's retail stores for a full year in fiscal 2010.

Increased depreciation and amortization of \$3.2 million, excluding \$3.3 million related to VG's.

Reductions in non-store incentive compensation of \$4.6 million.

Reductions in store labor of \$4.5 million due to lower sales volumes and efficiency improvements, net of a \$0.9 million charge for a payment resulting from the restructuring of an employee benefit program.

Reductions in operating expenses of \$3.5 million related to the sale or closure of six stores in fiscal 2010 and 2009.

Reductions in occupancy costs of \$2.7 million driven by utilities and rent.

Decreased transportation and fuel costs of \$2.0 million.

Other reductions in general and administrative expenses due to a overriding focus on cost containment initiatives.

We expect to realize annualized expense savings of \$4.0 million to \$4.5 million as a result of the the warehouse consolidation and corporate workforce reduction that occurred in the fourth quarter of fiscal 2010.

Restructuring and Asset Impairment Costs. Fiscal 2010 restructuring and asset impairment costs include \$4.2 million in severance and other one-time costs directly related to the transition of the Plymouth, Michigan warehouse operations to the Grand Rapids, Michigan facilities, \$1.1 million for the provision of lease and related ancillary costs, net of sublease income, related to the closure of two stores, a reduction of \$0.9 million related to changes in estimated costs and sublease recoveries in excess of previous estimates, and \$1.7 million in asset impairment charges for assets at closed stores, assets at underperforming stores and abandoned development projects.

Interest Expense. Interest expense increased \$2.3 million, or 16.0%, from \$14.1 million to \$16.4 million, and was 0.6% of net sales in fiscal 2010 compared to 0.5% of net sales in fiscal 2009. The increase in interest expense is primarily due to an increase in average outstanding borrowings related to the acquisition of VG's late in fiscal 2009.

On January 2, 2009, we entered into an interest rate swap agreement. The interest rate swap is considered to be a cash flow hedge of interest payments on \$45.0 million of borrowings under our senior secured revolving credit facility by effectively converting a portion of the variable rate debt to a fixed rate basis. Under the terms of the agreement, we have agreed to pay the counterparty a fixed interest rate of 3.33% and the counterparty has agreed to pay Spartan Stores a floating interest rate based upon the 1-month LIBOR plus 1.25% (1.48% at March 27, 2010) on a notional amount of \$45 million. The interest rate swap agreement expires concurrently with our senior secured revolving credit facility on December 24, 2012.

Income Taxes. The effective tax rate is 38.8% and 40.6% for fiscal 2010 and fiscal 2009, respectively. The difference from the statutory rate is primarily due to State of Michigan income taxes, partially offset by tax credits. The effective tax rate decreased in fiscal 2010 due to an increase in tax credits and charitable product contributions.

Results of Continuing Operations for the Fiscal Year Ended March 28, 2009 Compared to the Fiscal Year Ended March 29, 2008

Net Sales. Net sales increased \$99.9 million, or 4.0%, from \$2,476.8 million in fiscal 2008 to \$2,576.7 million in fiscal 2009. The sales increase was primarily due to incremental sales from the *Felppausch* and *VG's* retail acquisitions, comparable store sales growth in our supermarkets, new distribution customer business and product cost inflation.

Net sales in our Distribution segment, after intercompany eliminations, decreased \$35.7 million, or 2.8%, from \$1,284.3 million to \$1,248.6 million primarily due to the elimination of sales to *VG's* and *Felppausch* stores of \$37.8 million and \$20.6 million, respectively, (due to our acquisitions of the stores), lower sales in our marginally profitable pharmacy distribution program of \$26.1 million, partially offset by incremental sales of \$53.5 million to new distribution customers primarily obtained in fiscal 2008.

Net sales in our Retail segment increased \$135.6 million, or 11.4%, from \$1,192.5 million to \$1,328.1 million. The sales increase was primarily due to incremental sales from the acquired *VG's* stores of \$72.7 million and *Felppausch* retail stores of \$43.2 million, supermarket comparable store sales growth of \$23.3 million and increases in fuel center sales of \$19.4 million, partially offset by lost sales of \$23.4 million relating to three stores that were sold in fiscal 2008, one store that was closed early in fiscal 2009 and one store that was sold in the third quarter of fiscal 2009. Excluding sales from fuel centers and Easter holiday sales in the fiscal 2008 first and fourth quarters, comparable store sales increased 2.7 percent principally due to our marketing programs, ongoing capital investment program, including store remodels, and product cost inflation.

Gross Margin. Gross margin represents net sales less cost of sales, which include purchase costs and promotional allowances. Vendor allowances that relate to our buying and merchandising activities consist primarily of promotional allowances, which are generally allowances on purchased quantities and, to a lesser extent, slotting allowances, which are billed to vendors for our merchandising costs, such as setting up warehouse infrastructure. Vendor allowances associated with product cost are recognized as a reduction in cost of sales when the product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms.

Gross margin increased by \$41.1 million, or 8.3%, from \$495.0 million to \$536.1 million. As a percent of net sales, gross margin increased from 20.0% to 20.8%. The gross margin rate improvement was due principally to an increase in the mix of higher margin retail sales as a percentage of consolidated sales and an improvement in distribution segment gross margin.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses consist primarily of salaries and wages, employee benefits, warehousing costs, store occupancy costs, utilities, equipment rental, depreciation and other administrative costs.

SG&A expenses increased \$30.0 million, or 6.9%, from \$433.3 million to \$463.4 million, and were 18.0% of net sales compared to 17.5% last year. The net increase in SG&A is due primarily to the following:

Additional operating costs associated with the acquired *VG's* retail stores of \$17.8 million, including approximately \$0.3 million of training and other start-up related costs.

Additional operating costs, excluding incremental grand re-opening costs for remodeled stores, associated with the acquired *Felppausch* retail stores of \$7.5 million.

Increases in compensation and benefits, excluding *VG's*, *Felppausch* and fuel centers, of \$6.7 million.

Incremental costs of \$1.0 million related to grand re-opening costs for remodeled stores.

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Increased depreciation and amortization, excluding *VG's*, *Felpausch* and fuel centers, of \$1.6 million.

The cost of operating additional fuel centers of \$1.4 million.

Increased utilities costs, excluding *VG's*, *Felpausch* and fuel centers, of \$1.2 million.

Reduced operating costs related to the sale of four retail stores and closure of one store since the prior year of \$6.0 million.

Reclassification of operating expenses due to replacement of \$1.5 million of the Michigan Single Business Tax (MSBT) with a new income tax for the State of Michigan. The MSBT was not considered an income tax and was included in operating expenses.

Interest Expense. Interest expense increased \$0.3 million, or 2.1%, from \$13.8 million to \$14.1 million, and was 0.5% of net sales in fiscal 2009 and 0.6% of net sales in fiscal 2008. The increase in interest expense is due to an increase in average outstanding borrowings of \$14.9 million and an increase in non-cash interest expense related to our convertible senior notes, partially offset by a decrease in interest rates.

Income Taxes. The effective tax rate is 40.6% and 35.8% for fiscal 2009 and fiscal 2008, respectively. The difference from the statutory rate is primarily due to State of Michigan income taxes. On January 1, 2008 a new income tax for the State of Michigan became effective which replaced the Michigan Single Business Tax ("MSBT"). The MSBT was not considered an income tax and was included in SG&A expenses. Total Michigan taxes, net of the Federal income tax benefit, were \$3.3 million in fiscal 2009 compared to \$1.3 million in fiscal 2008. The fiscal 2008 amount is comprised of MSBT expense of \$0.8 million and \$0.5 million for the new Michigan income tax, both net of the Federal tax benefit.

Discontinued Operations

Certain of our retail and grocery distribution operations have been recorded as discontinued operations. Results of the discontinued operations are excluded from the accompanying notes to the condensed consolidated financial statements for all periods presented, unless otherwise noted.

During the second quarter of fiscal year 2008, Spartan Stores decided to close five *The Pharm* stores and one *Felpausch Xpressmart*. The decision to close the stores was based on a comprehensive evaluation of the stores' performance trends, long-term growth prospects, on-going capital requirements and lease expiration dates. As Spartan Stores has no continuing interest in the operations of these stores, they have been classified as discontinued operations for all years presented. Prescription lists and pharmacy inventories were sold for \$4.7 million, and asset impairment charges of \$0.9 million were recognized. The stores were closed early in the third quarter of fiscal 2008.

During the fourth quarter of fiscal year 2008, Spartan Stores approved a plan to close the remaining 14 *The Pharm* stores. In fiscal 2009, we completed the closure and sale of prescription files of all *The Pharm* stores, allowing us to concentrate efforts and resources on business opportunities with the best long-term growth potential and focus more on core distribution and conventional supermarket operations. Cash proceeds of \$13.8 million were received. Asset impairment charges and exit costs of \$5.6 million were recognized.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, assets held for sale, long-lived assets, income taxes, self-insurance reserves, exit costs, retirement benefits, stock-based compensation and contingencies and litigation. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. Based on our ongoing review, we make adjustments we consider appropriate under the facts and circumstances. We have discussed the development, selection and disclosure of these policies with the Audit Committee of the Board of Directors.

We believe that the following represent the more critical estimates and assumptions used in the preparation of our consolidated financial statements.

Inventories. Inventories are valued at the lower of cost or market using the last-in, first-out ("LIFO") method. If replacement cost had been used, inventories would have been \$46.6 million and \$46.8 million higher at March 27,

2010 and March 28, 2009, respectively. We use the retail inventory method ("RIM") and replacement cost method to determine the cost of our inventory. Under the RIM method, inventory is stated at cost with cost of sales and gross margin calculated by applying a cost ratio to the retail value of inventories. The replacement cost method utilizes the most current unit purchase cost to calculate the value of inventories. We evaluate inventory shortages throughout the year based on actual physical counts in our facilities. We record allowances for inventory

shortages based on the results of recent physical counts to provide for estimated shortages from the last physical count to the financial statement date.

Vendor Funds. We receive funds from many of the vendors whose products we buy for resale in our corporate-owned stores and to our independent retail customers. Given the highly promotional nature of the retail supermarket industry, vendor allowances are generally intended to defray the costs of promotion, advertising and selling the vendor's products. Vendor allowances that relate to our buying and merchandising activities consist primarily of promotional allowances, which are generally allowances on purchased quantities and, to a lesser extent, slotting allowances, which are billed to vendors for our merchandising costs such as setting up warehouse infrastructure. The proper recognition and timing of accounting for these items are significant to the reporting of the results of our operations. Vendor allowances are recognized as a reduction in cost of sales when the related product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms.

Goodwill. Goodwill is reviewed for impairment on an annual basis (during the fourth quarter), or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Fair values are determined based on the discounted cash flows and comparable market values of each reporting segment. If the fair value of the reporting unit is less than its carrying value, the fair value of the implied goodwill is calculated as the difference between the fair value of the reporting unit and the fair value of the underlying assets and liabilities, excluding goodwill. An impairment charge is recorded for any excess of the carrying value over the implied fair value. Our goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of each reporting segment to our total market capitalization. Therefore, a significant and sustained decline in our stock price could result in goodwill impairment charges. During times of financial market volatility, significant judgment is given to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances.

Determining market values using a discounted cash flow method requires that we make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. Our judgments are based on historical experience, current market trends and other information. In estimating future cash flows, we rely on internally generated five-year forecasts for sales and operating profits, including capital expenditures and a 3% long-term assumed growth rate of cash flows for periods after the five-year forecast for the Retail segment and 2.5% for the Distribution segment. The future estimated cash flows were discounted using a rate of 10.9% and 12.0% for the Retail and Distribution segments, respectively. We generally develop these forecasts based on recent sales data for existing operations and other factors. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, different assumptions could result in different outcomes. Based on our annual review during fiscal years 2010, 2009 and 2008, no goodwill impairment charge was required to be recorded. No goodwill impairment charge would be required even if the current estimate of future discounted cash flows was 10% lower. Furthermore, no goodwill impairment charge would be required if the discount rate was increased 1%.

Impairment of Long-Lived Assets Other Than Goodwill. Long-lived assets to be held and used are evaluated for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. When the undiscounted future cash flows are not sufficient to recover an asset's carrying amount, the fair value is compared to the carrying value to determine the impairment loss to be recorded. Long-lived assets are evaluated at the asset-group level which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In fiscal 2010, asset impairments for long-lived assets totaled \$1.9 million. No material impairments for long-lived assets to be held and used were determined to exist for fiscal years 2009 and 2008.

Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell. Management determines fair values using independent appraisals, quotes or expected sales prices developed by

internal real estate professionals. Estimates of expected sales prices are judgments based upon our experience, knowledge of market conditions and current offers received. Changes in market conditions, the economic environment and other factors can significantly impact these estimates. While we believe that the estimates and assumptions underlying the valuation methodology are reasonable, different assumptions could result in a different outcome. If the current estimate of future discounted cash flows was 10% lower an additional impairment reserve of \$0.3 million would be required.

Insurance Reserves. We are primarily self-insured for costs related to workers' compensation, general liability and health insurance. We record our self-insurance liabilities based on reported claims experience and an estimate of claims incurred but not yet reported. Workers' compensation and general liability are actuarially determined on a discounted basis. We have purchased stop-loss coverage to limit our exposure to any significant exposure on a per claim basis. Our exposure for workers' compensation and general liability is \$0.5 million per claim and for health insurance our exposure is \$0.3 million per associate per year.

Any projection of losses concerning workers' compensation, general liability and health insurance is subject to a considerable degree of variability. Among the causes of variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations, benefit level changes and claim settlement patterns. Although our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, such changes could have a material impact on future claim costs and currently recorded liabilities. The impact of many of these variables is difficult to estimate. As of March 27, 2010, a one percentage point decrease in the discount rate, or 100 basis points, would increase our liability less than \$0.1 million and a one percentage point increase in the discount rate would decrease our liability by less than \$0.1 million.

Restructuring Costs. We record restructuring costs for closed stores that are subject to long-term lease commitments based upon the future minimum lease payments and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated sublease rentals that could be reasonably expected to be obtained for the property. Future cash flows are based on contractual lease terms and knowledge of the market in which the closed store is located. These estimates are subject to multiple factors, including inflation, ability to sublease the property and other economic conditions. Internally developed estimates of sublease rentals are based upon the market in which the property is located, the results of previous efforts to sublease similar property and the current economic environment. Reserves may be adjusted in the future based upon the actual resolution of each of these factors. At March 27, 2010 exit costs for store lease and ancillary costs totaling \$33.9 million are recorded net of approximately \$0.2 million of existing sublease rentals. Based upon the current economic environment we do not believe that we will be able to obtain any additional sublease rentals. A 10% increase/decrease in future estimated ancillary costs would increase/decrease the exit costs reserve by approximately \$1.4 million.

Pension. Accounting for defined benefit cash balance pension plans involves estimating the cost of benefits to be provided in the future, based on vested years of service, and attributing those costs over the time period each employee works. The significant factors affecting our pension costs are the fair value of plan assets and the selection of management's key assumptions, including the expected return on plan assets, rate of compensation increases and discount rate used by our actuary to calculate our liability. We consider current market conditions, including changes in interest rates and investment returns, in selecting these assumptions. Our discount rate is based on current investment yields on high quality fixed-income investments and projected cash flow obligations. The discount rate used to determine fiscal 2010 pension expense was 7.00%. Expected return on plan assets is based on projected returns by asset class on broad, publicly traded equity and fixed-income indices, as well as target asset allocation. Our target allocation mix is designed to meet our long-term pension requirements. For fiscal 2010, our assumed rate of return was 8.25%. Over the ten-year period ended March 27, 2010, the average actual return was approximately 5.2%. The deteriorating conditions in the global financial markets during 2008 led to a substantial reduction in the 10-year average rate of return on pension assets. We expect that the markets will eventually recover to our assumed long-term rate of return. We maintained our rate of increases in compensation at 4.00%. While we believe the assumptions selected are reasonable, significant differences in our actual experience, plan amendments or significant changes in the fair value of our plan assets may materially affect our pension obligations and our future expense. A 25 basis point increase or decrease in the discount rate would have decreased/increased fiscal 2010 pension expense by less than \$0.1 million. A 25 basis point increase or decrease in the expected return on plan assets would have decreased/increased fiscal 2010 pension expense by \$0.1 million. A 50 basis point increase or decrease in the compensation increases would have increased/decreased fiscal 2010 pension expense by \$0.1 million.

The unfunded status of our defined benefit plans was \$10.7 million and \$17.6 million for 2010 and 2009, respectively. The decrease in the unfunded balance during fiscal 2010 is a result of an actual gain on plan assets of \$13.5 million, partially offset by service and interest costs exceeding contributions by \$0.7 million and an actuarial loss of \$5.9 million. Plan assets increased by 41.2% primarily due to market gains on assets and company contributions of \$6.0 million, partially offset by benefit payments of \$4.3 million. Pension expense was \$2.7 million and \$1.3 million in fiscal 2010 and fiscal 2009, respectively.

Liquidity and Capital Resources

The following table summarizes our consolidated statements of cash flows for fiscal years 2010, 2009 and 2008:

(In thousands)

| | March 27, 2010 | March 28, 2009 | March 29, 2008 |
|--|-------------------|-------------------|-------------------|
| Net cash provided by operating activities | \$ 91,702 | \$ 80,922 | \$ 67,777 |
| Net cash used in investing activities | (58,028) | (159,736) | (87,946) |
| Net cash (used in) provided by financing activities | (27,896) | 52,554 | 21,940 |
| Net cash (used in) provided by discontinued operations | (3,127) | 12,912 | 6,033 |
| Net increase (decrease) in cash and cash equivalents | 2,651 | (13,348) | 7,804 |
| Cash and cash equivalents at beginning of year | 6,519 | 19,867 | 12,063 |
| Cash and cash equivalents at end of year | \$ 9,170 | \$ 6,519 | \$ 19,867 |

Net cash provided by operating activities increased during fiscal 2010 primarily due to improved timing of payments. The increase during fiscal 2009 was primarily due to an increase in net earnings, timing of new business in fiscal 2008 and collection of new customer advances made in fiscal 2008 with delayed payment terms.

During fiscal 2010, we did not pay any Federal income taxes due to application of fiscal 2009 overpayments.

Net cash used in investing activities decreased in fiscal 2010 due to decreased acquisition and capital expenditure activity. We paid a total cash purchase price of \$6.4 million and \$103.4 million for acquisitions in fiscal years 2010 and 2009, respectively. Net cash used in investing activities was higher in fiscal 2009 due to increased acquisition and capital expenditure activity. Excluding the acquisitions, our Distribution and Retail segments utilized 15% and 85%, respectively, of our capital expenditure dollars for fiscal 2010. Expenditures were used for new stores, land, store remodels and refurbishments, new fuel centers and new equipment and software. Under the terms of our senior secured revolving credit facility, should our available borrowings fall below certain levels, our capital expenditures would be restricted each fiscal year. Our current available borrowings are approximately \$101 million above these limits as of March 27, 2010 and we do not expect to fall below these levels. As a result of our aggressive capital improvement program in fiscal years 2010 and 2009, our retail store base is in good physical condition. Consequently, we expect capital expenditures to decrease to a range of \$30 million to \$35 million in fiscal 2011, primarily for the completion of one new store, one relocated store, store remodels, fuel centers, new equipment and software. The reduced capital expenditure activity will result in incremental cash flow that is available for strategic purposes or further debt reductions.

Net cash used in or provided by financing activities includes cash paid and received related to our long-term borrowings, dividends paid, tax benefits of stock compensation and proceeds from the issuance of common stock. The decrease in cash from financing activities in fiscal 2010 was primarily due to borrowings on our senior secured revolving credit facility that were used to finance the VG's acquisition in fiscal 2009 and other debt repayments. The increase in cash provided from financing activities in fiscal 2009 was primarily due to the VG's acquisition, partially offset by other debt repayments. Although we currently expect to continue to pay a quarterly cash dividend, adoption of a dividend policy does not commit the board of directors to declare future dividends. Each future dividend will be considered and declared by the board of directors in its discretion. Whether the board of directors continues to declare

dividends depends on a number of factors, including our future financial condition and profitability and compliance with the terms of our credit facilities. Our current maturities of long-term debt and capital lease obligations at March 27, 2010 are \$4.2 million. Our ability to borrow additional funds is governed by the terms of our credit facilities.

On January 2, 2009, Spartan Stores entered into an interest rate swap agreement. The interest rate swap is considered to be a cash flow hedge of interest payments on \$45.0 million of borrowings under Spartan Stores' senior secured revolving credit facility by effectively converting a portion of the variable rate debt to a fixed rate basis.

Under the terms of the agreement, Spartan Stores has agreed to pay the counterparty a fixed interest rate of 3.33% and the counterparty has agreed to pay Spartan Stores a floating interest rate based upon the 1-month LIBOR plus 1.25% (1.48% at March 27, 2010) on a notional amount of \$45 million. The interest rate swap agreement expires concurrently with its senior secured revolving credit facility on December 24, 2012.

Net cash (used in) provided by discontinued operations contains the net cash flows of our discontinued operations and consists primarily of the payment of store exit cost reserves, insurance run-off claims and other liabilities and proceeds from the sale of assets. Included in fiscal years 2009 and 2008 cash flows from discontinued operations are proceeds on the sale of assets of \$13.8 million and \$3.6 million, respectively.

Our principal sources of liquidity are cash flows generated from operations and our senior secured revolving credit facility. Interest on our convertible senior notes is payable on May 15 and November 15 of each year. The revolving credit facility matures December 2012, and is secured by substantially all of our assets. As of March 27, 2010, our revolving credit facility had outstanding borrowings of \$45.0 million, available borrowings of \$121.4 million and maximum availability of \$131.4 million, which exceeds the minimum excess availability levels, as defined in the credit agreement.

Prior to amending our credit facility in the first quarter of fiscal 2008, we had a \$225.0 million senior secured revolving credit facility maturing December 2010. The amended credit facility extended the maturity by two years, and, at our option, we may increase the maximum amount available under the credit facility up to \$275.0 million through increased commitments from lenders. Additional borrowing would be subject to existing asset levels. On August 17, 2007, Spartan Stores entered into an agreement to increase the maximum credit available under its existing senior secured credit facility from \$225.0 million to \$255.0 million.

Available borrowings under the credit facility are based on stipulated advance rates on eligible assets, as defined in the credit agreement. The credit facility contains covenants that include a minimum fixed charge coverage ratio and maximum capital expenditures, as defined in the credit agreement. These covenants are not effective as long as we maintain minimum excess availability levels, as defined in the credit agreement. The credit facility provides for the issuance of letters of credit of which \$1.7 million were outstanding and unused as of March 27, 2010. Borrowings under the revolving credit portion of the facility bear interest at the London InterBank Offered Rate ("LIBOR") plus 1.25%, adjusted based upon availability levels, or the prime rate (weighted average interest rate of 3.33% at March 27, 2010 including the effects of the interest rate swap).

Our current ratio decreased slightly to 1.09:1.00 at March 27, 2010 from 1.13:1.00 at March 28, 2009 and our investment in working capital was \$15.7 million at March 27, 2010 versus \$21.0 million at March 28, 2009. Our debt to total capital ratio decreased to 0.40:1.00 at March 27, 2010 versus 0.44:1.00 at March 28, 2009, primarily due to reductions in long-term debt.

Our total capital structure includes borrowings under our credit facility, convertible senior notes, various other debt instruments, leases and shareholders' equity. Historically, we have financed our capital needs through a combination of internal and external sources. Management believes that cash generated from operating activities and available borrowings under the credit facility will be sufficient to meet anticipated requirements for working capital, capital expenditures, dividend payments, and debt service obligations for the foreseeable future. However, there can be no assurance that our business will continue to generate cash flow at or above current levels or that we will maintain our ability to borrow under our credit facility.

Adjusted EBITDA is a non-GAAP financial measure that our credit facility defines as net earnings from continuing operations plus depreciation and amortization, and other non-cash charges including imputed interest, deferred (stock) compensation, LIFO expense and costs associated with the closing of operational locations, plus interest expense, the provision for income taxes and Michigan Single Business Tax to the extent deducted in the

computation of net earnings.

Adjusted EBITDA is not a measure of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for net earnings, cash flows from operating activities and other income or cash flow statement data. The adjusted EBITDA information has been included as one measure of our operating performance and historical ability to service debt. We believe that investors find the information useful because it reflects the resources available for strategic opportunities including, among others, to

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invest in the business, make strategic acquisitions and to service debt. Adjusted EBITDA as defined by us may not be comparable to similarly titled measures reported by other companies.

Following is a reconciliation of net earnings to adjusted EBITDA for fiscal years 2010, 2009 and 2008.

(In thousands)

| | 2010 | 2009 | 2008 |
|--|------------|------------|-----------|
| Net earnings | \$ 25,558 | \$ 36,871 | \$ 32,646 |
| Add: | | | |
| Discontinued operations | 375 | (1,838) | (1,795) |
| Income taxes | 16,475 | 23,914 | 17,216 |
| Interest expense | 16,394 | 14,138 | 13,842 |
| Other income and expenses | (138) | (341) | (287) |
| Operating earnings | 58,664 | 72,744 | 61,622 |
| Add: | | | |
| Depreciation and amortization | 34,640 | 28,133 | 23,781 |
| LIFO (income) expense | (176) | 2,531 | 2,578 |
| Restructuring and asset impairment costs | 6,154 | - | - |
| Michigan Single Business Tax expense (benefit) | (100) | (320) | 1,213 |
| Other non-cash charges | 4,096 | 4,815 | 2,780 |
| Adjusted EBITDA | \$ 103,278 | \$ 107,903 | \$ 91,974 |

Reconciliation of operating earnings to adjusted EBITDA by segment:

| | | | |
|--|-----------|-----------|-----------|
| Retail: | | | |
| Operating earnings | \$ 20,591 | \$ 29,560 | \$ 26,941 |
| Add: | | | |
| Depreciation and amortization | 26,042 | 20,031 | 16,139 |
| LIFO expense | 185 | 2,208 | 639 |
| Restructuring and asset impairment costs | 1,948 | - | - |
| Michigan Single Business Tax expense (benefit) | (50) | (170) | 177 |
| Other non-cash charges | (148) | 125 | (108) |
| Adjusted EBITDA | \$ 48,568 | \$ 51,754 | \$ 43,788 |

| | | | |
|--|-----------|-----------|-----------|
| Distribution: | | | |
| Operating earnings | \$ 38,073 | \$ 43,184 | \$ 34,681 |
| Add: | | | |
| Depreciation and amortization | 8,598 | 8,102 | 7,642 |
| LIFO (income) expense | (361) | 323 | 1,939 |
| Restructuring and asset impairment costs | 4,206 | - | - |
| Michigan Single Business Tax expense (benefit) | (50) | (150) | 1,036 |
| Other non-cash charges | 4,244 | 4,690 | 2,888 |

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| | | | |
|-----------------|-----------|-----------|-----------|
| Adjusted EBITDA | \$ 54,710 | \$ 56,149 | \$ 48,186 |
|-----------------|-----------|-----------|-----------|

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The table below presents our significant contractual obligations as of March 27, 2010 ⁽¹⁾:

Payment Due by Period

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|--|---------------------|---------------------|-------------------|-------------------|----------------------|
| | (In thousands) | | | | |
| Long-term debt | \$ 137,466 | \$ 140 | \$ 45,140 | \$ 92,061 | \$ 125 |
| Estimated interest on long-term debt ⁽²⁾ | 17,535 | 4,233 | 8,081 | 5,213 | 8 |
| Capital leases ⁽³⁾ | 47,809 | 4,069 | 8,534 | 6,866 | 28,340 |
| Interest on capital leases | 27,390 | 3,882 | 6,736 | 5,451 | 11,321 |
| Operating leases ⁽³⁾ | 151,995 | 31,448 | 49,236 | 31,394 | 39,917 |
| Lease and ancillary costs of closed stores, including imputed interest | 39,040 | 7,702 | 11,241 | 9,480 | 10,617 |
| Purchase obligations (merchandise) ⁽⁴⁾ | 570,856 | 176,784 | 347,055 | 35,517 | 11,500 |
| FIN 48 unrecognized tax liability | 2,232 | 569 | 6 | 1,657 | - |
| Self-insurance liability | 8,013 | 5,552 | 1,482 | 543 | 436 |
| Total | \$ 1,002,336 | \$ 234,379 | \$ 477,511 | \$ 188,182 | \$ 102,264 |

(1) Excludes funding of pension and other postretirement benefit obligations, which totaled approximately \$6.3 million in fiscal 2010. Spartan Stores is required to make a contribution of \$2.9 million to its defined benefit pension plan in fiscal 2011 to meet minimum pension funding requirements. Also excludes contributions under various multi-employer pension plans, which totaled \$7.5 million in fiscal 2010. For additional information, refer to Note 11 to the consolidated financial statements.

(2) Interest payments on long-term debt assume the remaining convertible subordinated notes are repurchased in whole on May 15, 2014 in accordance with the applicable terms. For additional information refer to Note 6 to the consolidated financial statements.

(3) Operating and capital lease obligations do not include common area maintenance, insurance or tax payments for which the Company is also obligated. In fiscal 2010, these charges totaled approximately \$11.1 million.

(4) The majority of our purchases involve supply orders to purchase products for resale in the ordinary course of business. These contracts are typically cancelable and therefore no amounts have been included in the table above. Also excluded are contracts that do not contain minimum annual purchase commitments but include other standard contractual considerations that must be fulfilled in order to earn \$2.0 million in advanced contract monies that has been received where recognition has been deferred on the Consolidated Balance Sheet. The purchase obligations shown in this table represent the amount of product we are contractually obligated to purchase to earn \$8.3 million in advanced contract monies that are receivable under the contracts. At March 27, 2010, \$4.1 million in advanced contract monies has been received under these contracts where recognition has been deferred on the Consolidated Balance Sheet. If we do not fulfill these purchase obligations, we would only be obligated to repay the unearned upfront contract monies.

Cash Dividends

We paid a quarterly cash dividend of \$0.05 per common share in each quarter of fiscal years 2010, 2009 and 2008. Under our senior revolving credit facility, we are generally permitted to pay dividends in any fiscal year up to

an amount such that all cash dividends together with any cash distributions or share repurchases, do not exceed \$15.0 million. Although we currently expect to continue to pay a quarterly cash dividend, adoption of a dividend policy does not commit the board of directors to declare future dividends. Each future dividend will be considered and declared by the board of directors in its discretion. Whether the board of directors continues to declare dividends depends on a number of factors, including our future financial condition and profitability and compliance with the terms of our credit facilities.

Indebtedness and Liabilities of Subsidiaries

On May 30, 2007, the Company sold \$110 million aggregate principal amount of 3.375% Convertible Senior Notes due 2027 (the "Notes"). The Notes are general unsecured obligations and rank equally in right of payment with all of the Company's other existing and future obligations that are unsecured and unsubordinated. Because the Notes are unsecured, they are structurally subordinated to our subsidiaries' existing and future indebtedness and other liabilities and any preferred equity issued by our subsidiaries. We rely in part on distributions and advances from our subsidiaries in order to meet our payment obligations under the notes and our other obligations. The Notes are not guaranteed by our subsidiaries. Many of our subsidiaries serve as guarantors with respect to our existing credit facility. Creditors of each of our subsidiaries, including trade creditors, and preferred equity holders, generally have priority with respect to the assets and earnings of the subsidiary over the claims of our creditors, including holders of the Notes. The Notes, therefore, are effectively subordinated to the claims of creditors, including trade creditors, judgment creditors and equity holders of our subsidiaries. In addition, our rights and the rights of our creditors, including the holders of the notes, to participate in the assets of a subsidiary during its liquidation or reorganization are effectively subordinated to all existing and future liabilities and preferred equity of that subsidiary. The Notes are effectively subordinated to our existing and future secured indebtedness to the extent of the assets securing such indebtedness and to existing and future indebtedness and other liabilities of our subsidiaries (including subsidiary guarantees of our senior credit facility).

The following table shows the indebtedness and other liabilities of our subsidiaries as of March 27, 2010:

Spartan Stores Subsidiaries Only
(In thousands)

(unaudited)
March 27,
2010

Current Liabilities