SPARTAN STORES INC
Form 10-Q
October 15, 2009

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

FORM 10-Q

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

For the quarterly period ended September 12, 2009.

OR

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

For the transition period from ______________ to ______________.

Commission File Number: 000-31127

SPARTAN STORES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan	**38-0593940**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
850 76th Street, S.W. **P.O. Box 8700** **Grand Rapids, Michigan**	**49518**
(Address of Principal Executive Offices)	(Zip Code)

(616) 878-2000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer	o	Accelerated filer	x

Non-accelerated filer	o	Smaller Reporting Company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes o No x

As of October 12, 2009 the registrant had 22,431,783 outstanding shares of common stock, no par value.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q, in our press releases and in our website-accessible conference calls and investor presentations 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 Part I, Item 2 of this Form 10-Q, 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 the Quarterly Report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q, Spartan Stores' Annual Report on Form 10-K for the year ended March 28, 2009 (in particular, you should refer to the discussion of "Risk Factors" in Item 1A of our 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 or increase gross margin; anticipate and successfully respond to openings of competitors; maintain and improve customer and supplier relationships; realize expected benefits of new relationships; realize growth opportunities; expand our customer base; reduce operating costs; generate cash; continue to meet the terms of our debt covenants; continue to pay dividends; and implement the other programs, plans, priorities, strategies, objectives, goals or expectations described in this Quarterly Report, our other reports or presentations, 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 below.

Anticipated future sales are subject to competitive pressures from many sources. Our Distribution and Retail businesses compete with many distributors, supercenters, warehouse discount stores, supermarkets and other retail stores selling food and related products, pharmacies and product manufacturers. Future sales will be dependent on the number of retail stores that we own and operate, our ability to retain and add to the retail stores to whom we distribute, competitive pressures in the retail industry generally and our geographic markets specifically, our ability to implement effective new marketing and merchandising programs and unseasonable weather conditions. Competitive pressures in these and other business segments may result in unexpected reductions in sales volumes, product prices or service fees.

Our operating and administrative expenses, and as a result, our net earnings and cash flows, may be adversely affected by changes in costs associated with, among other factors: difficulties in the operation of our business segments; future business acquisitions; adverse effects on business relationships with independent retail grocery store customers; difficulties in the retention or hiring of employees; labor stoppages or disputes; business and asset divestitures; increased transportation or fuel costs; current or future lawsuits and administrative proceedings; and losses of, or financial difficulties of, customers or suppliers. Our future costs for pension and postretirement benefit costs may be adversely affected by changes in actuarial assumptions and methods, investment return and the composition of the group of employees and retirees covered, changes in our business that result in a withdrawal liability under multi-employer plans, and the actions and contributions of other employers who participate in multi-employer plans to which we contribute. Our future income tax expense, and as a result, our net earnings and cash flows, could be adversely affected by changes in tax laws. Our accounting estimates could change and the actual effects of changes in accounting principles could deviate from our estimates due to changes in facts, assumptions, or acceptable methods, and actual results may vary materially from our estimates. Our operating and administrative expenses, net earnings and cash flow could also be adversely affected by changes in our sales mix. Our ongoing cost reduction initiatives and changes in our marketing and merchandising programs may not be as successful as anticipated. Acts of terrorism, war, natural disaster, fire, accident, general economic conditions and unemployment, particularly in Michigan, government assistance programs, or other circumstances beyond our control could have adverse effects on the availability of and our ability to operate our warehouses and other facilities, consumer buying behavior, fuel costs, shipping and transportation, product imports, product cost inflation or deflation and its impact on LIFO expense and other factors affecting our company and the grocery industry generally.

Our future interest expense and income also may differ from current expectations, depending upon, among other factors: the amount of additional borrowings; changes in our borrowing agreements; changes in the interest rate environment; changes in accounting pronouncements; and changes in the amount of fees received or paid. The availability of our secured loan agreement depends on compliance with the terms of the loan agreement and financial stability of the banking community.

Our 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. 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.

This section is intended to provide meaningful cautionary statements. This should not be construed as a complete list of all 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 Quarterly Report.

PART I
FINANCIAL INFORMATION

ITEM 1. Financial Statements

SPARTAN STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

Assets	September 12, 2009	March 28, 2009
Current assets		
Cash and cash equivalents	$ 6,746	$ 6,519
Accounts receivable, net	53,673	51,470
Inventories, net	143,332	113,790
Prepaid expenses and other current assets	9,757	9,579
Deferred taxes on income	4,835	5,201
Total current assets	218,343	186,559
Other assets		
Goodwill	249,492	249,303
Other, net	51,397	52,643
Total other assets	300,889	301,946
Property and equipment, net	246,360	234,806
Total assets	$ 765,592	$ 723,311
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 129,646	$ 97,248
Accrued payroll and benefits	27,791	35,456
Other accrued expenses	20,083	19,195
Current portion of exit costs	9,859	9,759
Current maturities of long-term debt and capital lease obligations	3,900	3,932
Total current liabilities	191,279	165,590
Long-term liabilities		
Deferred income taxes	42,358	35,338
Postretirement benefits	27,246	25,401
Other long-term liabilities	19,103	20,876
Exit costs	32,120	34,786

Long-term debt and capital lease obligations	189,115	194,115
Total long-term liabilities	309,942	310,516
Commitments and contingencies (Note 6)		
Shareholders' equity		
Common stock, voting, no par value; 50,000 shares authorized; 22,437 and 22,213 shares outstanding	155,832	153,778
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	-	-
Accumulated other comprehensive loss	(14,089)	(14,151)
Retained earnings	122,628	107,578
Total shareholders' equity	264,371	247,205
Total liabilities and shareholders' equity	$ 765,592	$ 723,311

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)
(Unaudited)

	12 Weeks Ended		24 Weeks Ended	
	September 12, 2009	**September 13, 2008**	**September 12, 2009**	**September 13, 2008**
Net sales	$ 610,222	$ 626,830	$ 1,206,249	$ 1,213,535
Cost of sales	474,209	499,312	939,222	970,487
Gross margin	136,013	127,518	267,027	243,048
Operating expenses	114,974	104,971	230,897	205,491
Operating earnings	21,039	22,547	36,130	37,557
Other income and expenses				
Interest expense	3,727	3,119	7,390	6,271
Other, net	(30)	(140)	(53)	(209)
Total other income and expenses	3,697	2,979	7,337	6,062
Earnings before income taxes and discontinued operations	17,342	19,568	28,793	31,495
Income taxes	6,845	7,969	11,452	12,748
Earnings from continuing operations	10,497	11,599	17,341	18,747
(Loss) earnings from discontinued operations, net of taxes	(63)	(963)	(48)	1,379
Net earnings	$ 10,434	$ 10,636	$ 17,293	$ 20,126
Basic earnings per share:				
Earnings from continuing operations	$ 0.47	$ 0.52	$ 0.78	$ 0.85
(Loss) earnings from discontinued operations	-	(0.04)	(0.01)*	0.06
Net earnings	$ 0.47	$ 0.48	$ 0.77	$ 0.91
Diluted earnings per share:				
Earnings from continuing operations	$ 0.47	$ 0.52	$ 0.77	$ 0.85
(Loss) earnings from discontinued operations	(0.01)*	(0.04)	-	0.06

Net earnings	$ 0.46	$ 0.48	$ 0.77	$ 0.91
Weighted average shares outstanding:				
Basic	22,432	22,085	22,364	22,038
Diluted	22,496	22,268	22,435	22,219

**includes rounding*

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance - March 29, 2009	22,213	$ 153,778	$ (14,151)	$ 107,578	$ 247,205
Comprehensive income, net of tax:					
Net earnings	-	-	-	17,293	17,293
Change in fair value of interest rate swap, net of taxes of $40	-	-	62	-	62
Total comprehensive income	-	-	-	-	17,355
Dividends - $.10 per share	-	-	-	(2,243)	(2,243)
Stock-based employee compensation	-	2,411	-	-	2,411
Issuances of common stock and related tax benefits on stock option exercises	7	43	-	-	43
Issuances of restricted stock and related income tax benefits	292	520	-	-	520
Cancellations of restricted stock	(75)	(920)	-	-	(920)
Balance - September 12, 2009	22,437	$ 155,832	$ (14,089)	$ 122,628	$ 264,371

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	24 Weeks Ended	
	September 12, 2009	**September 13, 2008**
Cash flows from operating activities		
Net earnings	$ 17,293	$ 20,126
Loss (earnings) from discontinued operations	48	(1,379)
Earnings from continuing operations	17,341	18,747
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for asset impairments and exit costs	601	-
Non-cash convertible debt interest	1,591	1,467
Depreciation and amortization	16,232	12,464
Postretirement benefits expense	1,637	721
Deferred taxes on income	6,923	6,607
Stock-based compensation expense	2,406	2,622
Excess tax benefit on stock compensation	(285)	(1,471)
Other	110	(28)
Change in operating assets and liabilities:		
Accounts receivable	(2,206)	310
Inventories	(29,117)	(29,182)
Prepaid expenses and other assets	254	(523)
Accounts payable	34,617	22,732
Accrued payroll and benefits	(7,819)	(8,624)
Postretirement benefits payments	(25)	(26)
Other accrued expenses and other liabilities	(1,392)	(2,482)
Net cash provided by operating activities	40,868	23,334
Cash flows from investing activities		
Purchases of property and equipment	(22,707)	(24,877)
Net proceeds from the sale of assets	54	392
Acquisitions	(1,405)	-
Other	61	17
Net cash used in investing activities	(23,997)	(24,468)
Cash flows from financing activities		
Net payments on revolving credit facility	(12,402)	-
Repayment of long-term borrowings	(1,863)	(4,711)
Excess tax benefit on stock compensation	285	1,471
Proceeds from exercise of stock options	28	348
Dividends paid	(1,121)	(1,105)

Net cash used in financing activities	(15,073)	(3,997)
Cash flows from discontinued operations		
Net cash used in operating activities	(1,571)	(44)
Net cash provided by investing activities	-	13,785
Net cash (used in) provided by discontinued operations	(1,571)	13,741
Net increase in cash and cash equivalents	227	8,610
Cash and cash equivalents at beginning of period	6,519	19,867
Cash and cash equivalents at end of period	$ 6,746	$ 28,477

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1
Basis of Presentation and Significant Accounting Policies

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of Spartan Stores, Inc. and its subsidiaries ("Spartan Stores"). All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, the accompanying condensed consolidated financial statements, taken as a whole, contain all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position of Spartan Stores as of September 12, 2009 and the results of its operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Note 2
Changes in Accounting Principles

FASB Staff Position No. APB 14-1

Effective March 29, 2009, Spartan Stores adopted the provisions of FASB Staff Position (FSP) No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (FSP APB 14-1), which changed the accounting treatment for convertible debt instruments that allow for either mandatory or optional cash settlements. FSP APB 14-1 requires Spartan Stores to recognize non-cash interest expense on its $110 million convertible senior notes based on the market rate for similar debt instruments without the conversion feature. Under FSP APB 14-1, convertible debt instruments are separated into their debt and equity components. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds from the issuance and the amount reflected as a debt liability is assigned to equity. As a result, the debt is effectively recorded at a discount reflecting its below market coupon interest rate. The debt is subsequently accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected in the consolidated statements of earnings. Additionally, FSP APB 14-1 states that transaction costs incurred with third parties shall be allocated to and accounted for as debt issuance costs and equity issuance costs in proportion to the allocation of proceeds between the liability and equity component, respectively. FSP APB 14-1 requires retrospective application to all periods presented.

The following table sets forth the retrospective accounting impacts of the adoption of FSP APB 14-1 on the Consolidated Statement of Earnings for the quarter and year-to-date period ended September 13, 2008 and the Consolidated Balance Sheet as of March 28, 2009.

(In thousands, except per share amounts)	12 Weeks Ended September 13, 2008		
	As Reported	Adjustment	As Adjusted
Consolidated Statement of Earnings:			
Interest expense	$ 2,408	$ 711	$ 3,119
Income taxes	8,244	(275)	7,969
Earnings from continuing operations	12,035	(436)	11,599
Net earnings	11,072	(436)	10,636
Basic and diluted earnings per share:			
Earnings from continuing operations	0.54[(1)]	(0.02)	0.52
Net earnings	0.50[(1)]	(0.02)	0.48

	24 Weeks Ended September 13, 2008		
	As Reported	Adjustment	As Adjusted
Interest expense	$ 4,860	$ 1,411	$ 6,271
Income taxes	13,294	(546)	12,748
Earnings from continuing operations	19,612	(865)	18,747
Net earnings	20,991	(865)	20,126
Basic earnings per share:			
Earnings from continuing operations	0.89[(1)]	(0.04)	0.85
Net earnings	0.95[(1)]	(0.04)	0.91
Diluted earnings per share:			
Earnings from continuing operations	0.88[(1)]	(0.03)	0.85
Net earnings	0.94[(1)]	(0.03)	0.91

[(1)] Amounts are after giving effect to the adoption of FASB Staff Position
No. 03-6-1 (see below)

(In thousands)	March 28, 2009		
	As Reported	Adjustment	As Adjusted
Consolidated Balance Sheet			
Other, net	$ 53,264	$ (621)	$ 52,643
Deferred income taxes	27,224	8,114	35,338
Long-term debt	215,686	(21,571)	194,115
Common stock	137,358		