

SPARTAN STORES INC
Form 10-Q
October 20, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 10, 2011.

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)

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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 (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 No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Yes No

As of October 17, 2011 the registrant had 22,864,131 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 with analysts 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, intends, plans, believes, estimates, or is confident that a particular occurrence or event will, may, could, should or will likely result or occur, or appears to have occurred, or will continue in the future, or that a development or opportunity, a priority, a strategy, or initiative 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, restructuring cost provisions and fair value measurements 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 26, 2011 (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 improve our retail-store performance; assimilate acquired stores; maintain or grow sales; respond successfully to competitors or changing consumer behavior; 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, initiatives, plans, priorities, strategies, objectives, goals or expectations described in this Quarterly Report, our other reports or presentations, our press releases and our public comments is not certain and 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 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, contributions and financial condition 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 and related interpretations. 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, and severe weather may

adverse affect the availability of and our ability to operate our warehouses and other facilities, and may adversely affect consumer buying behavior, fuel costs, shipping and transportation costs, product cost inflation or deflation and its impact on LIFO expense. General economic conditions and unemployment, particularly in Michigan, government assistance programs, health care reform, or other circumstances beyond our control, may adversely affect consumer buying behavior. A combination of the aforementioned factors, coupled with a prolonged general economic recession, could result in goodwill and other long-lived asset impairment charges.

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 and the amount and timing of the Company's future repurchases of shares of common stock, if any, 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)

	September 10, 2011	March 26, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 62,080	\$ 43,824
Accounts receivable, net	60,026	56,344
Inventories, net	121,287	103,814
Prepaid expenses and other current assets	10,000	7,408
Deferred taxes on income	3	1,526
Property held for sale	1,708	
Total current assets	255,104	212,916
Goodwill	240,704	241,244
Property and equipment, net	243,545	241,448
Other, net	56,773	55,788
Total assets	\$ 796,126	\$ 751,396
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 129,185	\$ 100,919
Accrued payroll and benefits	32,384	37,679
Other accrued expenses	14,580	18,343
Current portion of restructuring costs	4,101	4,470
Current maturities of long-term debt and capital lease obligations	4,249	4,205
Total current liabilities	184,499	165,616
Long-term liabilities		
Deferred taxes on income	76,585	66,241
Postretirement benefits	14,321	14,222
Other long-term liabilities	17,118	18,269
Restructuring costs	8,908	10,832
Long-term debt and capital lease obligations	173,282	170,711
Total long-term liabilities	290,214	280,275
Commitments and contingencies (Note 5)		

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Shareholders equity

Common stock, voting, no par value; 50,000 shares authorized; 22,863 and 22,619 shares outstanding	164,648	162,086
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding		
Accumulated other comprehensive loss	(12,981)	(13,016)
Retained earnings	169,746	156,435

Total shareholders equity	321,413	305,505
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Total liabilities and shareholders equity	\$ 796,126	\$ 751,396
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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 10, 2011	September 11, 2010	September 10, 2011	September 11, 2010
Net sales	\$ 619,647	\$ 602,056	\$ 1,222,211	\$ 1,179,293
Cost of sales	486,910	466,858	964,137	917,406
Gross margin	132,737	135,198	258,074	261,887
Operating expenses				
Selling, general and administrative	112,891	112,926	224,232	223,686
Restructuring, asset impairment and other	(135)	183	(135)	2,765
Total operating expenses	112,756	113,109	224,097	226,451
Operating earnings	19,981	22,089	33,977	35,436
Other income and expenses				
Interest expense	3,412	3,504	6,654	6,933
Other, net	(42)	(4)	(112)	(54)
Total other income and expenses	3,370	3,500	6,542	6,879
Earnings before income taxes and discontinued operations	16,611	18,589	27,435	28,557
Income taxes	6,341	7,244	11,030	11,137
Earnings from continuing operations	10,270	11,345	16,405	17,420
Loss from discontinued operations, net of taxes	(18)	(106)	(124)	(194)
Net earnings	\$ 10,252	\$ 11,239	\$ 16,281	\$ 17,226
Basic earnings per share:				
Earnings from continuing operations	\$ 0.45	\$ 0.50	\$ 0.72	\$ 0.77
Loss from discontinued operations			(0.01)	(0.01)
Net earnings	\$ 0.45	\$ 0.50	\$ 0.71	\$ 0.76
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.45	\$ 0.50	\$ 0.72	\$ 0.77
Loss from discontinued operations			(0.01)	(0.01)
Net earnings	\$ 0.45	\$ 0.50	\$ 0.71	\$ 0.76
Weighted average shares outstanding:				
Basic	22,862	22,627	22,777	22,577
Diluted	22,962	22,692	22,872	22,650

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 26, 2011	22,619	\$ 162,086	\$ (13,016)	\$ 156,435	\$ 305,505
Comprehensive income/loss, net of tax:					
Net earnings				16,281	16,281
Change in fair value of interest rate swap, net of taxes of \$23			35		35
Total comprehensive income					16,316
Dividends - \$.013 per share				(2,970)	(2,970)
Stock-based employee compensation		2,681			2,681
Issuances of common stock and related tax benefits on stock option exercises	48	792			