

SPARTAN STORES INC
Form 10-K
May 16, 2011

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 26, 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)

Michigan
(State or Other Jurisdiction
of Incorporation or Organization)

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

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

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

49518-8700
(Zip Code)

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

Title of Class	Name of Exchange on which Registered
Common Stock, no par value	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). 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 11, 2010 (which was the last trading day of the registrant's second quarter in the fiscal year ended March 26, 2011) was \$287,491,952.

The number of shares outstanding of the registrant's Common Stock, no par value, as of May 9, 2011 was 22,584,538, 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 10, 2011

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 for 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 improve operating results; maintain and strengthen our retail-store performance; assimilate acquired stores; maintain or grow sales; respond successfully to competitors; maintain gross margin; effectively address food cost or price inflation or deflation; 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, systems, 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 reports provided by Metro Market Studies, 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 our other Michigan markets. For the fiscal year ended March 26, 2011 (fiscal 2011), we generated net sales of approximately \$2.5 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 8,600 associates, Spartan Stores distributes a wide variety of products to approximately 375 independent grocery stores and operates 97 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, E-Sourcing, 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 97 corporate-owned stores. Also included are approximately 3,600 private brand grocery and general merchandise items. Total net sales from our Distribution segment, including shipments to our corporate-owned stores which are eliminated in the consolidated financial statements, were approximately \$1.8 billion for fiscal 2011.

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 21 stores as well as 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 15% of our fiscal 2011 Distribution net sales. In addition, approximately 70% 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 1.4 million square feet of warehouse, distribution and office space as of March 2011. 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 SKUs 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 improved 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 fiscal 2011, 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 12.7 million miles annually.

During fiscal 2011, we continued to focus on leveraging the Fleet Management System upgrade as well as the new dispatch software, both of which were deployed in the fourth quarter of fiscal 2010 to create a more efficient and effective operation. The greater visibility provided by the dispatch software of the end-to-end transportation processes, resulted in continued improvement in trends of increased outbound load density, reduction of off-route and empty miles as well as increased private fleet inbound freight revenue. The satellite-based global positioning and communications hardware allowed fleet supervisors to communicate directly with drivers, providing accurate estimated times of arrival information, which optimizes delivery schedules and service level to our customers. The trailer-tracking product enabled the dispatch center to more efficiently track the location of all trailers in its inventory as well as support the completion of chain of custody audits for product in transit. Continued integration with other supply chain systems, will assist with improving resource utilization and lowering the fleet tractor to trailer ratio as we move through fiscal 2012. Furthermore, system supplied

critical event and performance reporting has positively impacted the fleet accident frequency and severity rating, as we remain committed to continued improvement in safety and reduction of insurance and claims costs.

We remain committed to the ongoing investment required to maintain a best-in-class fleet while focusing on the lowest operating cost model. A comprehensive equipment replacement strategy has enabled the company to capitalize on seasonal business fluctuations, vehicle technology enhancements, increased trailer capacity or fleet right-sizing and manufacturer component warranty cycles. In fiscal 2011, we took delivery of fifteen Kenworth tractors, equipped with the new Cummins ISX 425 horsepower engine that met 2010 federal emissions standards. The trucks offer an industry leading solution with world-class low emissions and greenhouse gases, while delivering outstanding horsepower, torque and improved fuel efficiency to a comparable diesel engine. The trucks reduce emissions to near-zero levels of nitrogen oxide and meet our continued commitment to reducing our carbon footprint. We also continue to invest in environmentally friendly equipment solutions such as improved aerodynamics, idling reduction systems, low roll resistant tires and tire inflation systems.

In Fiscal 2012, we will focus on the launch and integration of a yard and dock management system with other transportation technology to automate and control the arrival/departure, yard location, yard movement and readiness of trailers in a full on-line environment. We will fully utilize the real time information from RF identification tags to track the location of equipment in the yard. The use of wireless communications for trailers will allow for improved control and monitoring of the distribution campus.

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

- Site identification and market analyses
- Store planning and development
- Marketing, promotion and advertising
- Technology and information services
- Accounting and tax preparation
- Human resource services

- Coupon redemption
- Product reclamation
- Printing
- Category management
- Real estate 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 97 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*, *VG's Food and Pharmacy*, and *Valu Land*.

Our 97 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 and *Fresh Selections*, *Top Care*, a health and beauty care brand, *Valu Time*, a value brand, *Full Circle*, a natural and organic brand and *Paws*, a pet supplies 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 25 fuel centers at our supermarket locations operating under the banners *D&W Quick Stop*, *Family Fare Quick Stop*, *Glen's Quick Stop*, and *VG's Quick Stop*. These fuel centers offer refueling facilities and in the adjacent convenience store, a limited variety of immediately consumable products. Our prototypical

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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.

Our stores are primarily the result of acquisitions from January 1999 to December 2008. The following chart details the changes in the number of our 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
2007	73	16	2	87
2008	87	20	8	99
2009	99	17	16	100
2010	100		4	96
2011	96	1		97

During fiscal 2011, we opened one new store, which included a pharmacy, and we completed six major remodels of our stores as well as many other limited remodels and store resets. In addition, we converted two stores to our new *Valu Land* banner, completed one store relocation and opened one new fuel center.

We expect to continue making meaningful progress with our capital investment program during fiscal 2012 by initiating construction of one new store as well as completing additional store remodels and opening three 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. In addition, the Company performs a post completion review of all major projects. 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)	2011		2010		2009	
Non-perishables (1)	\$ 1,297,719	51%	\$ 1,367,298	53%	\$ 1,374,566	53%
Perishables (2)	906,945	36	895,005	35	904,999	35
Fuel	123,262	5	95,937	4	98,258	4
Pharmacy	205,138	8	193,716	8	198,915	8
Consolidated net sales	\$ 2,533,064	100%	\$ 2,551,956	100%	\$ 2,576,738	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 15 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 which have 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 loyalty. 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 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. In order to engender loyalty with our customers we provide them with discounts on fuel purchases at our fuel centers. 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 addition, we continue to evolve our no cost prescription drugs program at VG's and other test locations.

We expanded our customer loyalty card program to include the VG's banner early in the fourth quarter of fiscal 2011. This program, which was introduced in the *Glen's Markets* banner late in the first quarter of fiscal 2010, 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 based on their response we plan to continue to roll out to additional banners in fiscal 2012.

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 these surveys help us assess overall customer satisfaction and identify several areas to focus on to drive consumer satisfaction and loyalty. From this program we have developed a fresh selection initiative to use for our competitive advantage. 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.

Private Brands. We currently market and distribute over 3,600 private brand items including our flagship *Spartan* brand, *Spartan Fresh Selections*, *Top Care*, a health and beauty care brand, *Valu Time*, a value brand, *Full Circle*, a natural and organic brand, and *Paws*, a pet supplies 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 1,900 corporate brand products to our consumer offer in the past seven years, with approximately 300 products introduced in fiscal 2011. We plan to introduce approximately 300 new items in fiscal 2012. Our products are continually recognized for excellence, and this year marked the eighth 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 the fresh department consumer offerings with *Spartan Fresh Selections*, which was launched in fiscal 2011 and included the addition of 92 new products. The continued expansion of our *Spartan* fresh product offerings will include approximately 150 new products in fiscal 2012.

Competition

Our Distribution and Retail segments operate in highly competitive markets, which typically result in low profit margins for the industry as a whole. We 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, 21 competitor supercenters opened in markets in which we operate corporate-owned stores. One additional opening is expected to occur during fiscal 2012 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. 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

Spartan continues to 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 2011, Spartan implemented an upgraded order acquisition system for our distribution business. We implemented the first phases on a new web based product information system for use by our distribution customers. We are in the process of developing a new handheld ordering system for use with our distribution customers which we will introduce fiscal 2012. These projects are all designed to provide expanded and timelier information so our distribution customers can make better decisions and more effectively compete in the marketplace.

Retail Systems. During fiscal 2011, we completed the installation of our computer-assisted ordering system in all of our corporate-owned stores for all of our center store products and packaged fresh items. This has reduced out of stocks and provided better control of inventory in our stores. We will continue to install the perpetual inventory system capabilities included in these systems over the next few fiscal years. We completed the implementation of our integrated Electronic Benefit Transfers (EBT) system for our Self Checkout systems to provide improved service to our EBT customers. We installed the first phase of an enhanced inventory cost accounting system for our corporate pharmacies to support improved margin analysis and inventory management. We have continued to enhance our customer loyalty marketing system and deployed it in the second corporate owned retail banner. We continue to expand the number of vendors on our Scan Based Trading system for use in our corporate locations which improves supply chain efficiency and reduces our inventory carrying costs.

Financial Systems. During fiscal 2011, Spartan implemented additional organizational management functions in its Human Resource and Payroll system. Spartan continued the implementation of a new labor management system in our corporate owned stores. We completed the installation of a new purchasing system for Maintenance, Repair and Operations (MRO) items.

Information Technology Infrastructure. We completed a major network upgrade at our corporate offices to update and increase network capacity. We continued to enhance our security systems at our retail locations and our central processing sites.

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 8,600 associates, 4,100 of which are full-time and 4,500 of which are part-time. Unions represent approximately 8% of our associates.

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 the 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 [For Investors](#) 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. Some of our distribution and retail competitors are substantially larger and have greater financial resources and geographic scope, lower merchandise acquisition costs and lower operating expenses than we do, intensifying competition at the wholesale and retail levels.

The effects of industry consolidation and the expansion of alternative store formats have resulted, and continue to result in, market share losses for traditional grocery stores. These trends have produced even stronger competition for our retail business and for the independent customers of our distribution business. To the extent our independent customers are acquired by our competitors or are not successful in competing with other retail chains and non-traditional competitors, sales by our distribution business will be affected. If we fail to effectively implement strategies to respond to these competitive pressures, our operating results could be adversely affected by price reductions, decreased sales or margins, or loss of market share.

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 and drugs, 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 will 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. 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.

It is sometimes necessary for us to recall unsafe, contaminated or defective products. Recall costs can be material and we might not be able to recover costs from our suppliers. 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 overcome. Any real or perceived issue regarding the safety of any food or drug 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, grocery store chains or distribution facilities. 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 store acquisitions will depend, in part, on whether we achieve the business synergies and related cost savings that we anticipated in connection with these transactions and any future acquisitions. Accordingly, we may not achieve expected results and long-term business goals.

Our business is subject to risks from regional economic conditions, fuel prices, 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 still challenged. Michigan has one of the highest unemployment rates 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 and mix 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.

Rising gasoline prices may affect consumer behavior and retail grocery prices. The impact of rising petroleum prices may prompt consumers to make different choices in how and where they shop due to the high price of gasoline. Additionally, the impact of higher fuel costs is passed through by manufacturers and distributors in the prices of goods and services provided, again potentially affecting consumer buying decisions. This could have adverse impacts on retail store traffic, basket size and overall spending at both our corporate and independent retail stores.

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.

Economic downturns and uncertainty have adversely affected overall demand and intensified price competition, and have caused consumers to trade down by purchasing lower margin items and to make fewer purchases in traditional supermarket channels. Continued negative economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, volatility in fuel and energy costs, food price inflation or deflation, employment trends in our markets and labor costs, the impact of natural disasters or acts of terrorism, and other matters affecting consumer spending could cause consumers to continue shifting even more of their spending to lower-priced competitors. The continued general reductions in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability.

Inflation and deflation may adversely affect our operating results.

In fiscal 2010 and 2011, the Company experienced relatively low levels of inflation. In this uncertain economy, it is difficult to forecast whether fiscal 2012 will be a period of inflation or deflation. Food deflation could reduce sales growth and earnings, while food inflation, combined with reduced consumer spending, could reduce gross profit margins. If we experience significant inflation or deflation, especially in the context of continued lower consumer spending, then the Company's financial condition and results of operations may be adversely affected.

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 Distribution segment associates are covered by collective bargaining agreements.

Most 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 may become the target of union organizing campaigns similar to those faced by our competitors. The potential for unionization could increase as any new related 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.

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

We contribute to the Central States 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. 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. Our cash balance pension plan was frozen as of January 1, 2011. Expenses associated with the defined benefit plans may significantly increase due to 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 26, 2011. 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. Any of these events could 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 material loss of sales or profits or cause us to incur significant costs to restore our systems or 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. 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.

Restrictive covenants imposed by our credit facility and other factors could affect our ability to borrow.

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. Disruptions in the financial markets have in the past resulted in bank failures. One or more of the participants in our credit facility could become unable to fund our future borrowings when needed. 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.

Impairment charges for goodwill or other intangible assets would adversely affect our financial condition and results of operations.

The Company is required to annually test goodwill and intangible assets with indefinite useful lives, including the goodwill associated with past acquisitions and any future acquisitions, to determine if impairment has occurred. Additionally, interim reviews must be performed whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, the Company is required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made.

The testing of goodwill and other intangible assets for impairment requires the Company to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including potential changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in the Company's stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates of the Company's future performance, may affect the fair value of goodwill or other intangible assets, which may result in an impairment charge. The Company cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, the Company's financial condition and results of operations may be adversely affected.

Our internal controls may fail or be circumvented.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, internal control over financial reporting may not prevent or detect misstatements. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud, and could expose us to litigation or regulatory action and could adversely affect the market price of our common stock. The Company's management concluded that its internal control over financial reporting was effective as of March 26, 2011. See Item 9A. Controls and Procedures Management's Report on Internal Control over Financial Reporting of this report.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Distribution Segment Real Estate

The following table lists the current 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	