

SPARTAN STORES INC  
Form 10-K/A  
May 24, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K/A  
(Amendment No. 1)**

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended March 31, 2001.

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 000-31127

**SPARTAN STORES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

**49518**  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value

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.

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Yes [ X ]                      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. \_\_\_\_

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 11, 2001, was \$241,395,641.37.

The number of shares of the registrant's common stock, no par value, outstanding at June 11, 2001, was 19,315,911 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III, Items 10, 11, 12 and 13

Proxy Statement for Annual Meeting held on July 11, 2001

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**LIST OF ITEMS AMENDED**

**PART II**

- Item 5.      Market for Registrant's Common Equity and Related Stockholder Matters
- Item 6.      Selected Financial Data.
- Item 7.      Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 8.      Financial Statements and Supplementary Data

**PART IV**

- Item 14.     Exhibits, Financial Statement Schedule and Reports on Form 8-K

**SIGNATURES**

**EXPLANATORY NOTE**

Items 5, 6, 7 and 8 of the Annual Report on Form 10-K of Spartan Stores, Inc. ("Spartan Stores") for the year ended March 31, 2001 are amended by deleting those Items in their entirety and replacing them with the Items included in this filing. Item 14 is amended by replacing the specified portions indicated herein.

The purpose of this amendment is to provide additional and revised disclosures regarding certain items in Spartan Stores' Form 10-K for the year ended March 31, 2001, as originally filed (the "Original Filing"). Spartan Stores is filing this Form 10-K/A (Amendment No. 1) to improve the detail and quality of Spartan Stores' financial statements, notes and discussion.

The changes in this Amendment No. 1 are the following:

Item 5: Disclosure concerning Spartan Stores' plans for the payment of dividends has been added.

Item 6: The Selected Financial Data table has been revised to remove the following two line items: (1) net cash provided by operations and (2) property and equipment additions. In addition, the amounts set forth in the rows entitled "working capital" and "current ratio" have been revised.

Item 7: Management's discussion and analysis has been revised to provide more detailed discussion of a number of items.

Item 8: The financial statements have been revised as follows:

The balance sheets have been revised to reclassify certain items.

The statements of shareholders' equity have been revised to include additional columns and other information.

The statements of cash flows has been revised to reclassify certain items.

Notes 1, 2, 9 and 12 have been revised to include certain expanded disclosures.

**None of the changes in this amendment affect Spartan Stores' results of operations as previously reported for the periods presented.**

Item 14: Schedule II has been revised to include information concerning insurance reserves.

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The disclosures of Spartan Stores' Form 10-K have not been updated to reflect any events occurring or circumstances arising after the date of the Original Filing. Any items in the Original Filing not expressly changed by this amendment shall be as set forth in the Original Filing. All information contained in this amendment and the Original Filing is subject to updating and supplementing as provided in Spartan Stores' reports filed with the Securities and Exchange Commission subsequent to the date of the Original Filing.

## PART II

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

Until August 2, 2000, there was no established public trading market for Spartan Stores' securities. However, on August 2, 2000, Spartan Stores common stock began trading on the National Market System of the Nasdaq Stock Market under the trading symbol "SPTN."

The following table sets forth the high and low sale prices for Spartan Stores common stock for the periods indicated, all as reported by Nasdaq:

	<u>High</u>	<u>Low</u>
Fiscal Year Ended March 31, 2001:		
Second Quarter*	\$11.81	\$5.34
Third Quarter	7.88	5.00

Fourth Quarter

11.50

6.00

\*The second quarter of Spartan Stores' 2001 fiscal year ran from June 18, 2000 to September 9, 2000. However, as noted above, Spartan Stores common stock did not begin trading on Nasdaq until August 2, 2000.

At June 11, 2001, there were approximately 795 record holders of Spartan Stores common stock. There were no holders of Spartan Stores preferred stock as of that date.

The amount of quarterly dividends for the fiscal year ended March 25, 2000 was \$0.0125 per share of Spartan Stores Class A common stock. During the fiscal year ended March 31, 2001, Spartan Stores paid quarterly dividends of \$0.0125 per share of Class A common stock for the first quarter, which ended on June 17, 2000, but did not pay any dividends for the other three quarters of that fiscal year.

As of March 31, 2001, Spartan Stores' bank credit agreement prohibited Spartan Stores or its subsidiaries from making any "Restricted Payments" in excess of (1) \$5,000,000 plus (2) "Excess Cash Flow" that is not required to be paid to the lenders under the credit agreement as a mandatory prepayment. Generally, Restricted Payments include (1) any non-stock dividend or other distribution on account of stock ownership, (2) redemptions or purchases of Spartan Stores stock, (3) retirement of any indebtedness other than the obligations owing under the credit agreement, (4) payment of any claim relating to (a) indebtedness other than the obligations owing under the credit agreement or (b) Spartan Stores stock and (5) any payment of management fees to any holder of Spartan Stores stock or any member of Spartan Stores' management. Spartan Stores is required to make an annual mandatory prepayment of Excess Cash Flow equal to 75% of such Excess Cash Flow for Spartan Stores' immediately preceding fiscal year, unless Spartan Stores' leverage ratio is less than or equal to 2.5 to 1.0, in which event Spartan Stores' mandatory prepayment is equal to 50% of Excess Cash Flow. Generally, Excess Cash Flow is defined in the credit agreement as EBITDA (earnings before interest, taxes, depreciation, and amortization), less (1) income taxes, (2) interest expenses, (3) principal payments of indebtedness, (4) capital expenditures and (5) permitted Restricted Payments, all calculated in accordance with generally accepted accounting principles.

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Spartan Stores acquired Seaway Food Town by merger effective as of August 1, 2000. The acquisition of Seaway Food Town greatly increased Spartan Stores' retail grocery store operations. Spartan Stores has not paid any dividends since the Seaway Food Town merger. The payment of dividends by Spartan Stores after the merger will be determined by its board of directors. Spartan Stores anticipates that it will use any net earnings in its operations, to repay debt, and to acquire additional retail operations, and that it will not pay any dividends for the foreseeable future.

## Item 6. Selected Financial Data

The following unaudited table provides selected historical consolidated financial information of Spartan Stores. The historical information of Spartan Stores was derived from its audited consolidated financial statements for and as of each of the five fiscal years ended March 29, 1997 through March 31, 2001.

(In thousands, except per share data)

Year Ended				
March 31, 2001 (A)	March 25, 2000	March 27, 1999	March 28, 1998	March 29, 1997

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**Operations Statement**

<b>Data:</b>										
Net sales	\$	3,505,923	\$	3,030,917	\$	2,655,854	\$	2,473,306	\$	2,458,404
Cost of sales		2,960,582		2,643,490		2,397,818		2,234,165		2,238,364
		<hr/>			<hr/>		<hr/>		<hr/>	
Gross profit		545,341		387,427		258,036		239,141		220,040
Selling, general and administrative		482,879		344,993		224,580		215,468		202,769
Restructuring charge (B)		1,000		(4,521)		5,698		-		-
Interest expense, net		27,044		22,802		7,495		8,928		7,473
Other (gains)		(2,542)		(1,491)		(1,188)		(3,906)		(1,704)
		<hr/>			<hr/>		<hr/>		<hr/>	
Earnings before income taxes,										
discontinued operations and extraordinary item		36,960		25,644		21,451		18,651		11,502
Income taxes		13,925		9,653		7,909		6,710		4,226
		<hr/>			<hr/>		<hr/>		<hr/>	
Earnings before discontinued operations and extraordinary item		23,035		15,991		13,542		11,941		7,276
Discontinued operations, net of taxes (C)		407		1,203		2,288		2,293		2,427
Extraordinary item, net of taxes (D)		-		-		(1,031)		-		-
		<hr/>			<hr/>		<hr/>		<hr/>	
Net earnings	\$	23,442	\$	17,194	\$	14,799	\$	14,234	\$	9,703
		<hr/>			<hr/>		<hr/>		<hr/>	
Weighted average shares outstanding (E)		17,333		13,432		14,508		15,136		15,488
Earnings from continuing operations per share	\$	1.33	\$	1.19	\$	..93	\$	..79	\$	..47
Basic earnings per share	\$	1.35	\$	1.28	\$	1.02	\$	.94	\$	.63
Cash dividends per share	\$	.0125	\$	.05	\$	.05	\$	.05	\$	.05

**Financial Statistics:**

Total assets	\$	810,845	\$	570,573	\$	523,378	\$	406,133	\$	403,630
Property and equipment, net	\$	289,143	\$	178,591	\$	158,348	\$	161,112	\$	173,008
Working capital	\$	76,932	\$	94,214	\$	106,094	\$	64,589	\$	63,104
Long-term debt	\$	306,632	\$	266,071	\$	271,428	\$	107,666	\$	125,776
Shareholders' equity	\$	218,413	\$	126,007	\$	121,062	\$	114,192	\$	107,258

**Financial Ratios:**

Net earnings as a percent of sales		0.67%		0.57%		0.56%		0.58%		0.39%
Current ratio		1.31		1.58		1.94		1.38		1.39
Long-term debt to equity ratio		1.40		2.11		2.24		0.94		1.17

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- (A) - See Note 2 to Consolidated Financial Statements
  - (B) - See Note 4 to Consolidated Financial Statements
  - (C) - See Note 3 to Consolidated Financial Statements
  - (D) - See Note 6 to Consolidated Financial Statements
  - (E) - See Note 12 to Consolidated Financial Statements

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

Spartan Stores, Inc. is a regional food distributor and retailer operating in the retail grocery, grocery distribution, convenience distribution and real estate segments.

Spartan Stores' results of operations from period to period can be significantly impacted by fluctuations in the level of net sales between its business segments. Spartan Stores' retail grocery segment generally produces significantly higher gross margins as a percent of net sales than its distribution segments. However, the retail grocery segment also generally incurs significantly higher selling, general and administrative expenses as a percent of sales. The results of operations of Spartan Stores' convenience distribution segment are also subject to significant fluctuations due to inventory gains and losses, primarily due to increases in tobacco product prices.

**Results of Operations**

The following table sets forth items from Spartan Stores' consolidated statements of earnings as percentages of net sales:

	Year Ended		
	March 31, 2001	March 25, 2000	March 27, 1999
Net sales	100.0%	100.0%	100.0%
Gross margin	15.6	12.8	9.7
Less:			
Selling, general and administrative expenses	13.8	11.4	8.5
Restructuring charge	-	(0.1)	0.2
Interest expense	0.9	0.9	0.3
Interest income	(0.1)	(0.1)	(0.1)
Other gains	(0.1)	(0.1)	-
Total expenses	14.5	12.0	8.9
Earnings before income taxes, discontinued operations and extraordinary item	1.1	0.8	0.8
Income taxes, discontinued operations and extraordinary item	0.4	0.3	0.3
Net earnings	0.7%	0.6%	0.6%

**Net Sales**

*Fiscal year ended March 31, 2001 compared to fiscal year ended March 25, 2000*

Net sales increased 15.7% to \$3,505.9 million compared to \$3,030.9 million for the prior fiscal year. Fiscal year 2001 consisted of 53 weeks compared with 52 weeks in the prior year. Additionally, all financial information has been adjusted for the discontinuance of the insurance segment. Refer to the "Discontinued Operations" section below for more details.

Net sales in the retail grocery segment increased 114.9% or \$620.5 million. The increase reflects additional sales of \$552.4 million from the acquisition of retail stores during the first and third quarters of fiscal 2000, the merger with Seaway Food Town, Inc. ("Food Town") in the second quarter of fiscal 2001, the acquisition of Prevo's Family Markets, Inc. ("Prevo's") in the fourth quarter of fiscal 2001 and a 6.5%, or \$68.1 million, increase in year-to-date same store sales. Same store sales increases are the

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result of improved marketing programs, better in-stock positions in acquired stores, expanded hours of operations at some sites and an aggressive advertising campaign in the third quarter of fiscal year 2001. Management continues to evaluate other acquisition opportunities in the retail grocery industry and expects acquisitions to contribute to future sales growth.

Net sales in the grocery store distribution segment, after intercompany eliminations, declined 9.2% or \$143.3 million compared to last year. The decrease primarily resulted from Spartan Stores' acquisition of grocery store distribution segment customers during fiscal years 2000 and 2001 (requiring the elimination of \$70.6 million of sales to these customers), the loss of D&W Food Center business of \$71.5 million and declines in sales of grocery and general merchandise products due to continued competitive market conditions. Partially offsetting these declines were the 53<sup>rd</sup> week of sales in fiscal year 2001 and increases in sales of perishable commodities and other direct sales.

Net sales in the convenience store distribution segment increased 0.1% to \$915.2 million. The increase is the result of cigarette price inflation and a 53<sup>rd</sup> week of sales. Excluding the extra week of sales, the convenience store distribution segment's sales declined as a result of increased competition in its markets and Spartan Stores' acquisition of retail grocery stores that were distribution segment customers with respect to tobacco products, candy and similar items.

***Fiscal year ended March 25, 2000 compared to fiscal year ended March 27, 1999***

Net sales increased 14.1% to \$3,030.9 million from \$2,655.8 million.

Retail grocery operations were accounted for as a separate segment beginning in fiscal 2000 with the acquisition of 47 additional retail grocery stores. Net sales for this period increased from \$0 to \$540.1 million. While price inflation in Spartan Stores' retail grocery segment was negligible, comparable store sales increased approximately 2.3%, or \$12 million, primarily due to Spartan Stores' promotional programs and emphasis on product line expansion.

Net sales in the grocery store distribution segment declined 13.2% or \$237.7 million to \$1,565.8 million. The decrease primarily resulted from Spartan Stores' acquisition of four grocery store distribution segment customers since January 1999, requiring the elimination of intercompany sales to these customers of \$280.6 million. The segment also experienced declines in sales of grocery products of \$14.3 million due to continued competitive market conditions. Partially offsetting these declines were increases in sales of perishables of \$11 million, as well as increases in direct sales of pharmacy and delicatessen products of \$60.8 million. Spartan Stores' success in increasing sales of perishables was primarily attributable to aggressive promotions and the move from its cost-plus pricing methodology

to a traditional variable markup pricing method for frozen and dairy products, meat, and produce to better respond to changing market conditions.

Net sales in the convenience store distribution segment for the fiscal year ended March 25, 2000 increased 8.7% or \$73.0 million to \$914.8 million. The increase was primarily the result of an increase in the average sales price for cigarettes, which totaled approximately \$3.10 per carton or roughly 22%. However, the increase in sales price was partially offset by reductions in total average carton sales. Sales of products unrelated to cigarettes rose from the prior year which was primarily attributable to Spartan Stores' continued focus on its competitive pricing structure, promotional programs and customer service.

### **Gross Margin**

*Fiscal year ended March 31, 2001 compared to fiscal year ended March 25, 2000*

Gross margin, as a percentage of net sales increased to 15.6%, a \$157.9 million increase to \$545.3 million. The increase reflects a 14.9% increase in the percentage of retail sales, bringing the total retail mix to 33.1% of the business mix, and improvements in the gross margin of the retail and grocery store distribution segments. This increase was partially offset by a .3% lower convenience store distribution

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gross profit percentage primarily due to increased cigarette costs passed along to customers and increased competitive pricing.

*Fiscal year ended March 25, 2000 compared to fiscal year ended March 27, 1999*

Gross margin, as a percentage of net sales was 12.8%, a \$129.4 million increase to \$387.4 million, compared to 9.7% for the fiscal year ended March 27, 1999. The increase is primarily attributable to Spartan Stores' expansion into the retail grocery business, for which gross margins as a percentage of sales are typically higher than in wholesale operations. Gross profit in Spartan Stores' grocery store distribution segment increased .2% due to lower product costs resulting from promotional activities with vendors. These increases were partially offset by gross margin decline of 1.2% in the convenience store distribution segment as margins returned to more typical historical levels. During fiscal year 1999, the convenience store distribution segment experienced gross margins substantially above historical levels due to the sale of cigarettes purchased prior to price increases.

### **Selling, General and Administrative Expenses**

*Fiscal year ended March 31, 2001 compared to fiscal year ended March 25, 2000*

Selling, general and administrative expenses increased to \$482.9 million, and were 13.8% of net sales compared to 11.4% last year. The increase was primarily due to the growth of Spartan Stores' retail grocery segment, which generates a higher selling, general and administrative expense percentage than the distribution segments and additional spending for promotional programs in certain markets. The higher costs in the retail grocery segment were partially offset by improvements of .2% in the wholesale grocery operations. Management expects selling, general and



administrative expenses to continue to increase as a result of the retail stores acquired during fiscal year 2001 which will be included for a full year in fiscal year 2002.

***Fiscal year ended March 25, 2000 compared to fiscal year ended March 27, 1999***

Selling, general and administrative expenses increased to \$345 million and were 11.4% of net sales, compared to 8.5% for the fiscal year ended March 27, 1999. The increase in selling, general and administrative expenses as a percentage of net sales was primarily attributable to the expansion of Spartan Stores' retail grocery operations.

**Restructuring Charges**

On November 27, 2000, the convenience store distribution segment announced the closure of its Sandusky, Ohio distribution center. A restructuring charge of \$1.0 million was recorded for the write-down of certain assets as well as severance pay, benefit continuation and outplacement assistance for affected associates.

On October 14, 1998, Spartan Stores' board of directors approved an initiative to replace Spartan Stores' Plymouth, Michigan distribution center with a new multi-commodity distribution center. Accordingly, \$6.5 million had been accrued for contractual amounts to be paid under a collective bargaining agreement, severance pay, and amounts due in connection with the withdrawal from the union pension plan. During fiscal year 2000, Spartan Stores acquired land for approximately \$1.3 million in the Toledo, Ohio area for the construction of the new distribution facility.

Subsequent to the above developments, management and Spartan Stores' collective bargaining work force entered into discussions on how efficiency at the current location could be improved. On November 2, 1999, Spartan Stores reached an agreement with the work force to begin to design innovative work teams to improve warehouse productivity. Because of Spartan Stores' significant commitment to its retail grocery business and the potential for improved productivity at its Plymouth facility, Spartan Stores reconsidered its decision to close this facility and entered into a five-year lease agreement on the

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Plymouth distribution center. Therefore, Spartan Stores reduced the restructuring accrual by \$5.6 million to reflect costs that no longer were expected to be incurred. As of March 31, 2001, no remaining accrual exists for the Plymouth distribution center.

**Interest Expense and Income**

***Fiscal year ended March 31, 2001 compared to fiscal year ended March 25, 2000***

Interest expense was .9% of net sales for both fiscal year 2001 and 2000. Interest expense was .9% of net sales for both fiscal year 2001 and 2000. Total average borrowings increased to \$317.5 million from \$283.5 million for the prior year as a result of the Food Town and Prevo's acquisitions. The effective borrowing rate increased to 9.84% at March 31, 2001 from 9.63% last year.

Interest income decreased slightly from fiscal year 2000 due to cash used for the retail acquisitions.

***Fiscal year ended March 25, 2000 compared to fiscal year ended March 27, 1999***

Interest expense for the fiscal year ended March 25, 2000 was 0.9 percent of net sales, compared to 0.3 percent for the fiscal year ended March 27, 1999.

Total average borrowings increased to \$283.5 million, up from \$195.7 million for the prior year. A majority of the increase occurred in the retail grocery segment due to acquisitions. In addition, Spartan Stores' effective borrowing rate increased to 9.63% per annum, up from 5.52% per annum for the prior year. The increase was attributable to a new bank credit facility that was entered into during the fourth quarter of fiscal 1999.

Interest income increased primarily due to the short-term investment of cash borrowed under the credit facility in anticipation of future acquisitions.

### **Other Gains**

The net gain of \$2.5 million for fiscal year 2001 was primarily due to a \$3.3 million gain on the sale of three properties in the real estate segment as well as a gain of \$0.2 million from the sale of stock in a supplier. Partially offsetting these gains was an impairment loss of \$1.1 million on technology related equipment in the grocery store distribution segment.

The net gain of \$1.5 million for fiscal year 2000, was predominately the result of recognized gains of approximately \$2.8 million on the sale of stock in a supplier as well as approximately \$0.7 million on the sale of land. Offsetting these gains was an impairment loss of \$1.3 million attributable to the discontinuance of a software implementation project and an impairment loss of approximately \$1.1 million on a property vacated by a lessee.

The net gain of \$1.2 million for the fiscal year ended March 27, 1999 was due primarily to approximately \$1.9 million in gains on the sales of three retail properties, offset by losses of approximately \$0.7 million on the write-down of certain assets. These assets included certain technology related equipment in connection with the implementation of a logistics software package and assets associated with the closing of administrative offices in conjunction with Spartan Stores' continuing efforts to centralize existing processes.

### **Discontinued Operations**

In January 2001, Spartan Stores' board of directors approved management's plan to discontinue the operations of the insurance segment. Accordingly, results of operations of the insurance segment and the estimated net loss on disposal was recorded as discontinued operations.

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During the fourth quarter of fiscal year 2001, Spartan Stores sold the insurance agency component of its insurance segment and expects to dispose of the remaining insurance segment during fiscal year 2002. Spartan Stores has recognized an estimated net loss of \$0.4 million on the discontinuance of the insurance segment.

During fiscal year 2000, Spartan Stores sold all of the issued and outstanding shares of capital stock of Shield Benefit Administrators, Inc., a wholly owned subsidiary in Spartan Stores' insurance segment. The gain on sale of \$0.2 million was recognized in the year ended March 25, 2000.

### **Extraordinary Item**

During the fourth quarter of fiscal year 1999, Spartan Stores incurred a pre-payment penalty of approximately \$1.6 million in connection with the repayment of senior notes outstanding. This extraordinary item was recorded in the grocery store distribution segment. The payment of the senior notes was required as a result of Spartan Stores' new bank credit facility discussed in the "Liquidity and Capital Resources" section below.

### **Net Earnings**

Net earnings for fiscal year 2001 increased to \$23.4 million compared to \$17.2 million for the prior year. The increase was partially offset by the recognition of the estimated net loss on the sale of the insurance segment. Management expects operations to continue to improve in the retail grocery segment due to anticipated operational synergies resulting from the acquisitions.

Net earnings for fiscal year 2000 were \$17.2 million, compared to \$14.8 million for the prior year.

### **Liquidity and Capital Resources**

Net cash from operating activities was \$58.3 million in fiscal year 2001, \$52.6 million in fiscal 2000 and \$53.9 million in fiscal 1999. Net cash from operating activities increased in fiscal 2001 due to increased net income and changes in working capital. Net cash from operating activities in fiscal year 2000 decreased primarily as a result of changes in working capital.

Net cash used by investing activities was \$115.6 million, \$36.4 million and \$71.3 million for the years ended March 31, 2001, March 25, 2000 and March 27, 1999, respectively. Cash used by investing activities increased in fiscal year 2001 primarily due to increased capital expenditures and cash used for the acquisitions of Food Town and Prevo's. The decrease in cash used by investing activities in 2000 is the result of cash used to acquire 47 retail grocery stores offset by the decrease in restricted cash.

Net cash provided by financing activities was \$48.5 million for fiscal year 2001 due primarily to cash borrowed to finance the acquisitions of Food Town and Prevo's, partially offset by debt repayments. Cash used in financing activities was \$8.5 million for fiscal year 2000 due to the repayment of debt and purchase of common stock.

Spartan Stores' principal sources of liquidity are cash generated from operations and borrowings under a senior secured credit facility. The credit facility dated March 18, 1999 consists of (i) a Revolving Credit Facility in the amount of \$100 million with a term of six years, (ii) a Term Loan A in the amount of \$100 million with a term of six years, (iii) an Acquisition Facility in the amount of \$75 million with a term of seven years and (iv) a Term Loan B in the amount of \$150 million with a term of eight years. At March 31, 2001, \$304 million was outstanding under this credit facility. Management believes that cash generated from operations and available borrowings under the credit facility will be sufficient to support operations in the foreseeable future. Available borrowings under the credit facility are based on stipulated levels of earnings before interest, taxes, depreciation and amortization as defined in the agreement.

Spartan Stores is also permitted to sell variable rate promissory notes under a "shelf" registration statement filed with the Securities and Exchange Commission, effective February 26, 2001, which

provides for the issuance of up to \$100 million of debt securities. The notes are offered in minimum denominations of \$1,000 and may be issued by Spartan Stores at any time, although Spartan Stores' credit facility restricts the total amount outstanding under the offering to approximately \$15.3 million. At March 31, 2001, approximately \$13.7 million in notes were outstanding.

Spartan Stores' current ratio decreased from 1.53 to 1.00 at March 25, 2000 to 1.27 to 1.00 at March 31, 2001 and working capital decreased from \$88.5 million to \$69.1 million. The declines are primarily the result of installments under Spartan Stores' credit facility becoming current and cash expended for the Seaway and Prevo's acquisitions.

Spartan Stores' debt to equity ratio decreased from 2.11 to 1.00 at March 25, 2000 to 1.40 to 1.00 at March 31, 2001. The decrease was due primarily to the issuance of 6.2 million shares of common stock in connection with the Food Town merger, the lower leverage position associated with these operations, scheduled principal payments on outstanding debt and net income generated during the period. Management continues to evaluate other acquisition opportunities, which if consummated could increase Spartan Stores' leverage position.

Spartan Stores' total capital structure includes borrowings under the senior secured credit facility, variable rate promissory notes, various other debt instruments, leases, and shareholders' equity. Management continues to evaluate other acquisition opportunities, which could result in additional borrowings and additional leases being entered into if consummated.

### **Recent Accounting Pronouncements**

During the third quarter of fiscal year 2001, Spartan Stores adopted Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." SAB No. 101 provides guidance on recognition, presentation, and disclosure of revenue in financial statements. The adoption of SAB No. 101 did not have a material impact on Spartan Stores' financial position and results of operations.

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 18, 2000. SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated in a cash-flow hedge, changes in fair value of the derivative will be recorded in other comprehensive income (OCI) and will be recognized in the statement of earnings when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings.

Spartan Stores expects at April 1, 2001, it will record \$2.4 million in OCI as a cumulative transition adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS 133.

### **Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**

The matters discussed in this Annual Report on Form 10-K include "forward-looking statements" about Spartan Stores' plans, strategies, objectives, goals, expectations or projections. These forward-looking statements are identifiable by words or phrases indicating that Spartan Stores or management "expects," "anticipates," "projects," "plans" or "believes" that a particular occurrence "may result" or "will likely result" or that a particular event "may occur" or "will likely occur" in the future, or similarly stated expectations. 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, there are

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many important factors that could cause actual results to be materially different from Spartan Stores' current expectations.

Anticipated future sales are subject to competitive pressures from many sources. Spartan Stores' grocery store and convenience store retail and distribution businesses compete with many warehouse discount stores, supermarkets, pharmacies and product manufacturers. Additionally, future sales will be dependent on the number of retail stores owned and operated by Spartan Stores and competitive pressures in the retail industry. Sales volumes in Spartan Stores' convenience store distribution segment may continue to be negatively impacted by increased cigarette and gasoline prices. Competitive pressures in this and other business segments may result in unexpected reductions in sales volumes, product prices or service fees.

Spartan Stores' selling, general and administrative expenses may be adversely affected by unexpected costs associated with, among other factors: the acquisitions of Food Town and Prevo's; the integration of the business operations of the retail stores and other businesses acquired by Spartan Stores; future business acquisitions, including additional retail stores; unanticipated difficulties in the operation of the retail grocery segment; difficulties in assimilation of acquired personnel, operations, systems or procedures; inability to realize synergies in the amounts or within the time frame expected by management; adverse effects on existing business relationships with independent retail grocery store customers; unexpected difficulties in the retention or hiring of employees for the acquired businesses; unanticipated labor shortages, stoppages or disputes; business divestitures; increased transportation or fuel costs; and current or future lawsuits and administrative proceedings. Spartan Stores' future interest expense and income also may differ from current expectations, depending upon the following, among other factors: the amount of additional borrowings necessary for retail store acquisitions; interest rate changes; cigarette inventory levels; retail property sales; the volume of notes receivable; and the amount of fees received on delinquent accounts.

This section is 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 economic, competitive, governmental, technological and other factors that could adversely affect Spartan Stores' expected consolidated financial position, results of operations or liquidity. Spartan Stores disclaims any obligation to update its forward-looking statements to reflect events or circumstances that occur after the date of this Report.

**Item 8. Financial Statements and Supplementary Data**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Shareholders  
Spartan Stores, Inc.  
Grand Rapids, Michigan

We have audited the accompanying consolidated balance sheets of Spartan Stores, Inc. and subsidiaries as of March 31, 2001 and March 25, 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of Spartan Stores' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Spartan Stores, Inc. and subsidiaries as of March 31, 2001 and March 25, 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
Grand Rapids, Michigan  
May 2, 2001

**CONSOLIDATED BALANCE SHEETS**

Spartan Stores, Inc. and Subsidiaries  
(In thousands, except per share data)

<u>Assets</u>	<u>March 31, 2001</u>	<u>March 25, 2000</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 27,561	\$ 36,422
Marketable securities	21,978	20,628
Accounts receivable, net	82,671	83,998
Inventories	179,589	105,587
Prepaid expenses	9,092	4,736
Deferred taxes on income	6,647	5,409
	<hr/>	<hr/>
<b>Total current assets</b>	327,538	256,780
<b>Other assets</b>		
Goodwill, net	155,737	101,170
Other, net	38,427	34,032
	<hr/>	<hr/>
<b>Total other assets</b>	194,164	135,202
<b>Property and equipment</b>		
Land and improvements	48,293	32,152
Buildings and improvements	203,964	141,461
Equipment	246,861	179,746
	<hr/>	<hr/>
<b>Total property and equipment</b>	499,118	353,359
Less accumulated depreciation and amortization	209,975	174,768
	<hr/>	<hr/>
<b>Net property and equipment</b>	289,143	178,591
	<hr/>	<hr/>
<b>Total assets</b>	\$ 810,845	\$ 570,573
	<hr/>	<hr/>

See notes to consolidated financial statements.

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**CONSOLIDATED BALANCE SHEETS (continued)**Spartan Stores, Inc. and Subsidiaries  
(In thousands, except per share data)

<b><u>Liabilities and Shareholders' Equity</u></b>	<b>March 31, 2001</b>	<b>March 25, 2000</b>
	<hr/>	<hr/>
<b>Current liabilities</b>		
Accounts payable	\$ 122,937	\$ 82,186
Accrued payroll and benefits	37,593	18,764
Insurance reserves	19,981	14,718
Other accrued expenses	31,617	23,036
Current maturities of long-term debt	38,478	23,862
	<hr/>	<hr/>
<b>Total current liabilities</b>	250,606	162,566
<b>Deferred taxes on income</b>	16,594	5,212
<b>Postretirement benefits</b>	12,852	10,717
<b>Long-term debt</b>	306,632	266,071
<b>Other long-term liabilities</b>	5,748	-
<b>Shareholders' equity</b>		
Common stock, voting, no par; 50,000 shares authorized; 19,262 and 0 shares outstanding	109,868	-
Class A common stock, voting, par value \$2 per share; 20,000 shares authorized; 0 and 9,919 shares outstanding	-	19,838
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	-	-
Additional paid-in capital	-	14,240
Retained earnings	108,545	91,929
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	218,413	126,007



	\$ 810,845	\$ 570,573
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See notes to consolidated financial statements.

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### CONSOLIDATED STATEMENTS OF EARNINGS

Spartan Stores, Inc. and Subsidiaries  
(In thousands, except per share data)

	Year Ended		
	March 31, 2001	March 25, 2000	March 27, 1999
<b>Net sales</b>	\$ 3,505,923	\$ 3,030,917	\$ 2,655,854
<b>Cost of goods sold</b>	2,960,582	2,643,490	2,397,818
<b>Gross margin</b>	545,341	387,427	258,036
<b>Other costs and expenses</b>			
Selling, general and administrative	482,879	344,993	224,580
Restructuring charge	1,000	(4,521)	5,698
Interest expense	31,243	27,294	9,208
Interest income	(4,199)	(4,492)	(1,713)
Other gains	(2,542)	(1,491)	(1,188)
<b>Total other costs and expenses</b>	508,381	361,783	236,585
<b>Earnings before income taxes, discontinued operations and extraordinary item</b>	36,960	25,644	21,451
<b>Income taxes</b>	13,925	9,653	7,909

<b>Earnings before discontinued operations and extraordinary item</b>	23,035	15,991	13,542
<b>Discontinued operations</b>			
Earnings from discontinued insurance segment (less applicable taxes of \$434, \$653 and \$1,239)	806	1,203	2,288
Loss on disposal of insurance segment (less applicable taxes of \$207)	(399)	-	-
<b>Earnings from discontinued operations</b>	407	1,203	2,288
<b>Earnings before extraordinary item</b>	23,442	17,194	15,830
<b>Extraordinary item (net of income taxes of \$554)</b>	-	-	(1,031)
<b>Net earnings</b>	\$ 23,442	\$ 17,194	\$ 14,799
<b>Basic and diluted earnings per share:</b>			
Earnings from continuing operations	\$ 1.33	\$ 1.19	\$ 0.93
Net earnings	\$ 1.35	\$ 1.28	\$ 1.02
<b>Weighted average shares:</b>			
Basic	17,333	13,432	14,508
Diluted	17,345	13,439	14,512

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Spartan Stores, Inc. and Subsidiaries  
(In thousands, except per share data)

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		Shares Outstanding	Common Stock Amount	Class A Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
<b>Balance</b>	March 29, 1998	11,444	\$ -	\$ 22,888	\$ 16,432	\$ 74,872	\$ 114,192
<b>Class A common stock transactions</b>	Purchases	(847)		(1,693)	(5,108)	(3,557)	(10,358)
	Issuances	247		494	2,491		2,985
<b>Cash dividends</b>	\$.05 per share					(556)	(556)
<b>Net earnings</b>						14,799	14,799
<b>Balance</b>	March 27, 1999	10,844	-	21,689	13,815	85,558	121,062
<b>Class A common stock transactions</b>	Purchases	(1,225)		(2,451)	(2,908)	(10,320)	(15,679)
	Issuances	300		600	3,333		3,933
<b>Cash dividends</b>	\$.05 per share					(503)	(503)
<b>Net earnings</b>						17,194	17,194
<b>Balance</b>	March 25, 2000	9,919	-	19,838	14,240	91,929	126,007
<b>Class A common stock transactions</b>	Purchases	(1)		(2)	(11)		(13)
	Issuances	53		105	596		701
<b>Conversion to no par common stock</b>			41,467	(26,642)	(14,825)		-
<b>Stock dividend</b>	.336 per share	3,351		6,701		(6,701)	-
<b>Common stock transactions</b>	Purchases	(330)	(2,556)				(2,556)
	Issuances	6,270	70,957				70,957
<b>Cash dividends</b>	\$.0125 per share					(125)	(125)
<b>Net earnings</b>						23,442	23,442
<b>Balance</b>	March 31, 2001	19,262	\$109,868	\$ -	\$ -	\$ 108,545	\$ 218,413

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Spartan Stores, Inc. and Subsidiaries  
(In thousands)

	Year Ended		
	March 31, 2001	March 25, 2000	March 27, 1999
<b>Cash flows from operating activities</b>			
Net earnings	\$ 23,442	\$ 17,194	\$ 14,799
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	39,445	32,063	21,413
Restructuring charge	1,000	(4,521)	5,698
Postretirement benefits	2,135	516	2,510
Deferred taxes on income	2,730	1,759	627
Other gains	(1,929)	(1,339)	(1,188)
Change in assets and liabilities:			
Marketable securities	(1,350)	430	(2,725)
Accounts receivable	13,382	(3,141)	(1,318)
Inventories	8,800	5,092	14,695
Prepaid expenses and other assets	(3,452)	1,642	1,866
Accounts payable	(15,834)	(2,846)	4,554
Accrued payroll and benefits	3,687	(253)	2,696
Insurance reserves	(254)	(206)	(1,635)
Other accrued expenses and other liabilities	(16,355)	6,089	(8,118)
<b>Net cash provided by operating activities</b>	<b>55,447</b>	<b>52,479</b>	<b>53,874</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(36,527)	(14,843)	(16,419)
Net proceeds from the sale of assets	11,981	5,114	6,623
Decrease in restricted cash	-	78,144	-
Acquisitions, net of cash acquired	(85,131)	(101,188)	(61,100)
Other	(3,114)	(19)	(416)
<b>Net cash used in investing activities</b>	<b>(112,791)</b>	<b>(32,792)</b>	<b>(71,312)</b>
<b>Cash flows from financing activities</b>			

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Changes in notes payable	-	-	(13,650)
Proceeds from long-term borrowings	76,570	2,767	97,887
Repayment of long-term debt	(26,094)	(9,404)	(39,843)
Debt issuance costs	-	-	(9,029)
Proceeds from sale of common stock	701	3,933	2,985
Common stock purchased	(2,569)	(8,814)	(10,359)
Dividends paid	(125)	(503)	(556)
<b>Net cash provided by (used in) financing activities</b>	<u>48,483</u>	<u>(12,021)</u>	<u>27,435</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(8,861)	7,666	9,997
<b>Cash and cash equivalents at beginning of period</b>	<u>36,422</u>	<u>28,756</u>	<u>18,759</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 27,561</u>	<u>\$ 36,422</u>	<u>\$ 28,756</u>

See notes to consolidated financial statements.

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## Note 1

### Summary of Significant Accounting Policies

*Company ownership:* Prior to August 2, 2000, Spartan Stores Class A common stock was substantially owned by its grocery distribution customers. Effective August 2, 2000, Spartan Stores obtained a listing on the Nasdaq National Market under the trading symbol of "SPTN" for its common stock. A description of Spartan Stores' business is included in the Operating Segment Information note to these consolidated financial statements.

*Principles of consolidation:* The consolidated financial statements include the accounts of Spartan Stores and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

*Use of estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

*Fiscal year:* The fiscal year of Spartan Stores ends on the last Saturday of March. The fiscal year ended March 31, 2001 was a 53-week year. Fiscal years ended March 25, 2000 and March 27, 1999 were 52-week years.

*Fair value disclosures of financial instruments:* Financial instruments include cash and cash equivalents, marketable securities, accounts and notes receivable, accounts and notes payable, long-term debt and an interest rate swap

agreement. The carrying amounts of cash and cash equivalents, accounts and notes receivable, and accounts and notes payable approximate fair value at March 31, 2001 and March 25, 2000 because of the short-term nature of these financial instruments. The fair value of marketable securities and the interest rate swap agreement are disclosed in notes five and six, respectively.

At March 31, 2001 the estimated carrying value of Spartan Stores' long-term debt (including current maturities) exceeded the fair value by approximately \$2.3 million compared to \$1.9 million at March 25, 2000. The estimated fair value was based on anticipated rates available to Spartan Stores for debt with similar terms and maturities.

*Cash and cash equivalents:* Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less at the date of purchase.

*Marketable Securities:* Investments in marketable securities are classified as available-for-sale and are reported at amortized cost, which approximate fair value.

*Accounts receivable:* Accounts receivable are shown net of allowances for credit losses of \$2.8 million in 2001 and \$2.4 million in 2000.

*Inventory valuation:* Inventories are stated at the lower of cost or market using the last-in, first-out ("LIFO") method. If replacement cost had been used, inventories would have been \$56.0 million and \$52.3 million higher at March 31, 2001 and March 25, 2000, respectively. During 2001, 2000, and 1999, certain inventory quantities were reduced. These reductions resulted in liquidations of LIFO inventory carried at lower costs prevailing in prior years as compared with the costs of purchases in these years, the

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effect of which decreased the LIFO provision in 2001, 2000, and 1999 by \$1.8 million, \$3.7 million, and \$1.4 million, respectively.

*Recognition of loan impairment:* Spartan Stores records allowances for loan impairment when it is determined that Spartan Stores will be unable to collect all amounts due according to the terms of the underlying agreement. Interest income on impaired loans is recognized only when interest payments are received. As of March 31, 2001, March 25, 2000 and March 27, 1999, no loan impairments have been recognized.

*Long-lived assets:* Spartan Stores reviews and evaluates long-lived assets for impairment when events or circumstances indicate that the carrying amount of an asset may not be recoverable. When the undiscounted future cash flows are not sufficient to recover an asset's carrying amount, a discounted cash flow model is utilized to determine the impairment loss to be recorded. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less the cost to sell.

During the third quarter of fiscal year ended March 31, 2001, the grocery store distribution segment recognized an impairment loss of \$1.1 million on certain technology-related equipment. During the third quarter of the fiscal year ended March 25, 2000, Spartan Stores recognized an impairment loss of \$1.1 million on property vacated by a lessee that is currently being marketed by the real estate segment. During the fourth quarter of the fiscal year ended March 25, 2000, Spartan Stores recognized a \$1.3 million impairment loss in connection with the discontinuance of a logistics software implementation in the convenience store distribution segment. These impairment losses are

recorded in other gains in the Consolidated Statements of Earnings. Additionally, Spartan Stores recognized an impairment loss on the write-down of long-lived assets and the present value of future lease payments at stores to be closed of \$1.6 million in fiscal year ended March 25, 2000 which was included in selling, general and administrative expenses in the Consolidated Statements of Earnings.

*Goodwill:* Goodwill is comprised of amounts paid in excess of the fair value of acquired net assets and is amortized on a straight-line basis over the estimated period benefited of 40 years. Goodwill is shown net of accumulated amortization of approximately \$5.4 million and \$2.6 million at March 31, 2001 and March 25, 2000, respectively.

*Other assets:* Included in other assets are non-compete agreements, favorable leases and debt issuance costs which are being amortized over the terms of the related agreements.

During the fiscal year ended March 25, 2000, a gain of approximately \$2.6 million was recognized from the sale of common stock held in a supplier and is included in other gains in the accompanying Consolidated Statements of Earnings.

*Property and equipment:* Property and equipment are recorded at cost and depreciated over the shorter of the estimated useful lives or lease periods of the assets. Expenditures for normal repairs and maintenance are charged to operations as incurred. Depreciation is computed using the straight-line and declining balance methods as follows:

Land improvements	15 to 40 years
Buildings and improvements	15 to 40 years
Machinery and equipment	5 to 20 years
Furniture and fixtures	3 to 10 years
Leasehold improvements	3 to 15 years

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Software development costs are capitalized and amortized over a five-year period commencing as each system is implemented.

*Insurance reserves.* Insurance reserves include a provision for reported losses and incurred but not reported losses related to reinsurance policies which insure the run-off of retained risk associated with the discontinued insurance segment and a provision for workers' compensation, healthy, and property insurance for which Spartan Stores is self-insured. Losses are recorded when reported and consist of individual case estimates. Incurred but not reported losses are actuarially estimated based on available historical information.

*Taxes on income:* Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

*Revenue recognition:* The retail grocery segment recognizes revenues from the sale of products at the point of sale.

The grocery distribution and convenience store distribution segments recognize revenues when products are shipped or ancillary services are provided. The real estate segment recognizes revenue according to the terms of the property leases.

*Earnings per share:* Basic Earnings Per Share ("EPS") excludes dilution and is computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by increasing the weighted average number of common shares outstanding by the dilutive effect of the issuance of common stock for options outstanding under Spartan Stores stock option plan.

*Advertising expense:* Spartan Stores' advertising costs are expensed as incurred and included in selling, general and administrative expenses in the Consolidated Statements of Earnings. Advertising expenses were \$19.1 million in 2001, \$12.7 million in 2000 and \$11.0 million in 1999.

*New accounting standards:* Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," is effective for all fiscal years beginning after June 18, 2000. SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, will be required to be recorded on the balance sheet at fair value. If the derivative is designated in a cash-flow hedge, changes in fair value of the derivative will be recorded in other comprehensive income (OCI) and will be recognized in the statement of earnings when the hedged item affects earnings. SFAS 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings.

Spartan Stores expects at April 1, 2001, it will record \$2.4 million in OCI as a cumulative transition adjustment for derivatives designated in cash flow-type hedges prior to adopting SFAS 133.

*Reclassifications:* Certain reclassifications have been made to the 2000 and 1999 presentations in order to conform to the 2001 presentation.

## **Note 2**

### **Acquisitions**

On March 4, 2001, Spartan Stores consummated a merger with Prevo's Family Markets, Inc. ("Prevo's"). Prevo's is a ten store chain located in western and northern Michigan. The total purchase price of Prevo's was \$36.1 million in cash. The excess of the purchase price over the fair value of assets and liabilities recorded was \$26.1 million.

On August 1, 2000, Spartan Stores consummated a merger with Seaway Food Town, Inc. ("Food Town"). Food Town is a leading regional supermarket chain that operates 47 supermarkets and 26 deep discount drugstores predominantly in northwest and central Ohio and southeast Michigan. The purchase price of Food Town was \$114.3 million, including cash of \$36.2 million, the exchange of stock of \$70.9 million, and a liability to dissenting shareholders of \$7.3 million. At the date of the merger, 6.7 million shares of outstanding Food Town common stock were converted into the right to receive one share of Spartan Stores common stock and \$5.00 in cash for each Food Town share. In



addition, Spartan Stores received \$12.1 million in cash and assumed certain liabilities of \$97.3 million, which includes \$32.5 million of long-term debt in conjunction with the Food Town merger. The holders of 448,835 shares of Food Town common stock provided notice of dissent from the merger. If dissenting shareholders exercise their dissenters' rights in accordance with the requirements of Ohio law, Spartan Stores will pay the fair cash value of their dissenting shares as determined by agreement or, in the absence of agreement, by a court of law. The excess of the purchase price over the fair value of assets and liabilities recorded was \$30.1 million.

The acquisitions of Food Town and Prevo's were accounted for as purchases and, accordingly, the acquired assets and assumed liabilities are included in the accompanying Consolidated Balance Sheet at values representing an allocation of the purchase price. The excess of the purchase price over the fair value of Food Town and Prevo's tangible assets and liabilities amounted to approximately \$57.4 million and was assigned to goodwill. Of the total purchase price of Prevo's, \$1.0 million is being held as contingent consideration until the related contingencies are discharged.

During the fiscal year ended March 25, 2000, Spartan Stores acquired 39 retail grocery stores, pharmacies and related businesses. On May 19, 1999, Spartan Stores acquired certain assets and assumed certain liabilities of Glen's Markets, Inc., Catt's Realty Co. and Glen's Pharmacy, Inc. (collectively, "Glen's") for \$92.4 million in cash and assumed \$13 million in debt. The acquisition was accounted for as a purchase and the excess of the purchase price over the fair value of the assets and liabilities recorded was \$64.3 million.

All of the issued and outstanding shares of Family Fare, Inc., Family Fare Management Services, Inc. and Family Fare Trucking, Inc. (collectively "Family Fare") were acquired on March 29, 1999. All of the issued and outstanding shares of Great Day, Inc. and Great Day Pharmacy, Inc. (collectively "Great Day") were acquired on December 4, 1999. These acquisitions were accounted for as purchases and the excess of the purchase price for these two acquisitions of \$47.2 million over the fair value of assets and liabilities recorded was \$32.2 million

These acquisitions have been accounted for as purchases and accordingly, the fair value of acquired assets and assumed liabilities are included in the accompanying Consolidated Balance Sheet as of March 25, 2000 at values representing an allocation of the purchase price.

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On January 4, 1999, Spartan Stores acquired certain assets and assumed certain liabilities of Ashcraft's Market, Inc. ("Ashcraft's") for \$17.3 million in cash. Ashcraft's is an operator of eight retail grocery stores located primarily in mid-Michigan. The acquisition of Ashcraft's was accounted for as a purchase and, accordingly, the acquired assets and assumed liabilities are included in the accompanying Consolidated Balance Sheet at values representing an allocation of the purchase price. The excess of the purchase price over the fair value of assets and liabilities recorded was \$5.9 million.

The Consolidated Statements of Earnings for the fiscal years ended March 31, 2001, March 25, 2000 and March 27, 1999 include the operations of each of the acquisitions from the date of purchase. The following unaudited pro forma information presents summary consolidated statement of earnings data of Spartan Stores as if the acquisitions had occurred as of March 28, 1999. These pro forma results are based on assumptions considered appropriate by management and include adjustments as considered necessary in the circumstances. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of results which would have actually been reported had the acquisitions taken place on March 28, 1999, or which may be reported in the future.

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Pro Forma (In thousands, except per share data)	March 31, 2001	March 25, 2000
Net sales	\$ 3,819,664	\$ 3,808,046
Earnings from continuing operations	27,168	16,896
Net earnings	27,575	18,099
Basic and diluted earnings per share:		
Earnings from continuing operations	1.39	0.86
Net earnings	\$ 1.41	\$ 0.92

**Note 3**

Divestiture

In January 2001, Spartan Stores' board of directors approved management's plan to discontinue the operations of the insurance segment. Accordingly, Spartan Stores reported the results of operations of the insurance segment and the estimated net loss on disposal as discontinued operations. Thus, amounts in the consolidated financial statements and related notes for all periods shown have been restated to reflect discontinued operations.

During the fourth quarter of fiscal year 2001, Spartan Stores sold the insurance agency component of its insurance segment and expects to liquidate the remaining insurance segment during fiscal year 2002. Spartan Stores has recognized an estimated net loss of \$0.4 million on the sale of the insurance segment. Net earnings from the insurance segment from the measurement date to the balance sheet date totaled \$0.5 million. As of March 31, 2001, the remaining assets of the insurance segment totaling \$31.1 million consisted primarily of marketable securities (see Note 5); the remaining liabilities of \$16.2 million consisted primarily of insurance reserves.

On March 3, 2000, Spartan Stores sold all of the issued and outstanding shares of capital stock of Shield Benefit Administrators, Inc. ("Shield Benefit"), a wholly owned subsidiary in Spartan Stores' insurance segment. The gain of \$0.2 million was recognized in the Consolidated Statements of Earnings during fiscal year ended March 25, 2000.

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Following is a summary of financial information for Spartan Stores' discontinued insurance segment:

(In thousands, except per share data)	March 31, 2001	March 25, 2000	March 27, 1999
Net sales	\$ 13,610	\$ 17,531	\$ 15,845
Earnings per share from discontinued Operations	\$ 0.02	\$ 0.09	\$ 0.16

**Note 4**

Restructuring Charge

During the third quarter of fiscal year 2001, the convenience store distribution segment announced the closure of its Sandusky, Ohio distribution center. A restructuring charge of \$1 million was established for the write-down of certain assets as well as severance pay, benefit continuation and outplacement assistance for the 45 affected associates.

Payments of \$0.8 million were made for these expenses. As of March 31, 2001, a remaining accrual of \$0.2 million exists for additional costs expected to be incurred.

On October 14, 1998, Spartan Stores' board of directors approved an initiative to replace Spartan Stores' Plymouth, Michigan distribution center with a new multi-commodity distribution center. Accordingly, \$6.5 million was accrued for contractual amounts to be paid under a collective bargaining agreement, severance pay, and amounts due in connection with the withdrawal from the union pension plan. During the second quarter of fiscal year 2000, Spartan Stores acquired land for approximately \$1.3 million in the Toledo, Ohio area for the construction of the new distribution facility.

Subsequent to the above developments, Spartan Stores and its collective bargaining work force entered into discussions on how efficiency at the current location could be improved. On November 2, 1999, Spartan Stores and its collective bargaining work force reached an agreement to begin to design innovative work teams with the goal to improve warehouse productivity. Additionally, during fiscal years 1999 and 2000 Spartan Stores acquired 47 retail grocery stores and made it Spartan Stores' intention to continue on the retail acquisition course as additional opportunities presented themselves. Due to Spartan Stores' significant commitment to the retail grocery segment and the potential for improved productivity at its Plymouth facility, Spartan Stores reconsidered its decision to close this facility and entered into a five-year lease agreement on the Plymouth distribution center. Therefore, Spartan Stores reduced the restructuring accrual by \$5.6 million to reflect costs that no longer were expected to be incurred. Payments of \$0.4 million were made during fiscal year ended March 25, 2000 for related costs. As of March 25, 2000, a remaining accrual of \$0.5 million existed for severance payments which were subsequently paid. As of March 31, 2001, no remaining accrual exists for the Plymouth distribution center.

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## Note 5

### Marketable Securities

The amortized cost of marketable securities available for sale as of March 31, 2001 and March 25, 2000 is shown below. Gross unrealized gains and losses as of March 31, 2001 and March 25, 2000 were not material. Amortized cost approximated fair value for each of the dates presented in the table below.

(In thousands)	March 31, 2001	March 25, 2000
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Securities available-for-sale:

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U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 9,486	\$ 9,425
Debt securities issued by foreign Governments, corporations and agencies	12,492	11,203
	<u>\$ 21,978</u>	<u>\$ 20,628</u>

The amortized cost of marketable securities as of March 31, 2001, by contractual maturity, is shown below:

(In thousands)

Due in one year or less	\$ 1,999
Due after one year through five years	9,217
Due after five years through ten years	6,792
Due after ten years through fifteen years	3,970
	<u>\$ 21,978</u>

**Note 6**

Notes Payable and Long-Term Debt

Spartan Stores has a \$425.0 million senior secured credit facility dated March 18, 1999 consisting of (i) a Revolving Credit Facility in the amount of \$100.0 million with a term of six years, (ii) a Term Loan A in the amount of \$100.0 million with a term of six years, (iii) an Acquisition Facility in the amount of \$75.0 million with a term of seven years and (iv) a Term Loan B in the amount of \$150.0 million with a term of eight years. The credit facilities provide for the issuance of letters of credit of which \$14.8 million and \$11.0 million were outstanding and unused as of March 31, 2001 and March 25, 2000, respectively. Interest rates payable on amounts borrowed under the credit facilities are based on the prime rate, the federal funds rate or the eurodollar rate, plus a stipulated margin. The Term Loan A facility bears interest at the 90-day eurodollar rate plus 2.0 percent (6.9 percent at March 31, 2001), the Term Loan B facility bears interest at the 90-day eurodollar rate plus 3.25 percent (8.2 percent at March 31, 2001) and the Acquisition Facility bears interest at the 90-day eurodollar rate plus 2.5 percent (7.5 percent at March 31, 2001). The credit facility contains covenants that include the maintenance of certain financial ratios,

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restrictions on additional indebtedness and payments of cash dividends and restricted payments. The senior secured credit facility is secured by substantially all of Spartan Stores' assets.

Spartan Stores manages interest rate risk on a portion of its debt through the use of an interest rate swap agreement that is effective to June 30, 2003. Under the terms of the agreement, Spartan Stores is protected against increases in interest rates from and after the date of the agreement in the initial aggregate notional amount of \$162.5 million, which decreases in proportion to principal payments made on Term Loan A and Term Loan B. The aggregate notional amount will be \$123.7 million at the end of the agreement's four-year term. The interest rate swap agreement converted a portion of the credit facility from a floating rate obligation to a fixed rate obligation. As of March 31, 2001, the net unrealized loss on the \$149.3 million interest rate swap agreement was \$2.4 million compared to net

unrealized gains of \$6.1 million at March 25, 2000. At March 31, 2001, the fair value of the interest rate swap agreement had not been recognized in the Consolidated Financial Statements since the agreement was accounted for as a hedge. The fair value of the interest rate swap agreement is the amount at which it could be settled based on estimates obtained from lending institutions.

The notional amount is used quarterly in the determination of cash settlements under the agreement. The interest rate swap agreement exposes Spartan Stores to credit losses from counter-party nonperformance, although losses are not anticipated from its agreement, which is with a major financial institution. The interest rate swap agreement is accounted for on the accrual basis. Amounts to be paid or received under the agreement are recognized as interest expense or income in the period they accrue. Spartan Stores does not hold or issue interest rate swap agreements for trading purposes.

The weighted average interest rates for fiscal years 2001 and 2000 were 9.84 percent and 9.63 percent, respectively.

On March 18, 1999, Spartan Stores prepaid amounts borrowed under senior unsecured notes in the amount of \$21.5 million. Spartan Stores incurred a pre-payment penalty of approximately \$1.6 million that is presented as an extraordinary item, net of income taxes, in the accompanying Consolidated Statements of Earnings. Loss per share for the extraordinary item were \$0.07 for the year ended March 27, 1999.

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Spartan Stores' long-term debt consists of the following:

(In thousands)	March 31, 2001	March 25, 2000
Senior credit facility, Term Loan A, due March, 2005, quarterly principal payments of \$5,000	\$ 80,000	\$ 100,000
Senior credit facility, Term Loan B, due March, 2007, semi-annual principal payments of \$250	149,000	149,750
Senior credit facility, Acquisition facility, due March, 2006, quarterly principal payments of variable amounts	75,000	-
Variable Rate Promissory Notes, unsecured,		

due March 31, 2003, interest payable quarterly at 1% below the prime rate	13,705	13,877
Other	27,405	26,306
	<u>345,110</u>	<u>289,933</u>
Less current portion	38,478	23,862
Total long-term debt	<u>\$ 306,632</u>	<u>\$ 266,071</u>

At March 31, 2001, long-term debt was due as follows:

(In thousands)

<u>Year ending March</u>		
2002	\$	38,478
2003		43,607
2004		38,170
2005		37,639
2006		30,337
Later		156,879
	\$	<u>345,110</u>

Spartan Stores is currently offering non-subordinated variable rate promissory notes to the public. The notes are offered in minimum denominations of \$1,000 and may be issued by Spartan Stores at any time, although Spartan Stores' bank credit agreement restricts the total amount outstanding under the offering to approximately \$15.3 million. The registered notes are issued under a "shelf" registration statement filed with the Securities and Exchange Commission, effective February 26, 2001, which provides for the issuance of up to \$100 million of debt securities.

## Note 7

### Commitments and Contingencies

Spartan Stores has guaranteed payment of certain customers' indebtedness to financial institutions aggregating approximately \$6.6 million at March 31, 2001. Spartan Stores also has guaranteed a lease by a customer which expires in 2017 with annual rental payments of \$0.2 million. Spartan Stores charges an annual fee for each loan guarantee and lease guarantee and requires each customer receiving a guarantee to commit to minimum purchase requirements.

On June 20, 2000, an amended complaint was refiled in a Tennessee state court by individual plaintiffs on behalf of the state of Tennessee and its taxpayers against the leading cigarette manufacturers operating in the United States and certain wholesalers and distributors, including J.F. Walker Company, Inc., a subsidiary of Spartan Stores. This case was initially filed in May 1997 and was removed to the United States District Court for the Eastern District of Tennessee. On June 16, 1998, J.F. Walker was voluntarily dismissed as a defendant. The federal district court then dismissed the case for lack of standing. The United States Court of Appeals for the Sixth Circuit affirmed the district court decision with instructions to remand the case back to state court. The plaintiffs then filed an amended complaint including J.F. Walker as a defendant. In this case, the plaintiffs are seeking compensatory, punitive and other damages, reimbursement of medical and other expenditures and equitable relief. Spartan Stores believes that J.F. Walker has valid defenses to this legal action, which is being vigorously defended. One of the cigarette manufacturers named as a defendant in this action has agreed to indemnify J.F. Walker from damages arising out of this action. Management believes that the ultimate outcome of this action should not have a material adverse effect on the consolidated financial position, results of operations or liquidity of Spartan Stores.

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

## Note 8

### Leases

Rental expense under operating leases was \$27.6 million, \$20.0 million, and \$9.8 million in 2001, 2000, and 1999, respectively. Future minimum obligations under operating leases in effect at March 31, 2001 are as follows:

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(In thousands)

Year Ending March,	Used in Operations	Subleased to Others	Total
2002	\$ 23,056	\$ 1,399	\$ 24,455
2003	21,560	1,212	22,772
2004	19,658	1,185	20,843
2005	17,392	1,189	18,581
2006	15,615	1,025	16,640
Later	70,787	6,721	77,508

Total	\$ 168,068	\$ 12,731	\$ 180,799
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One of Spartan Stores' subsidiaries leases retail store facilities to non-related entities. Of the stores leased, several are owned and others were obtained through leasing arrangements and are accounted for as operating leases. Substantially all of the leases provide for minimum and contingent rentals based upon stipulated sales volumes.

Owned assets, included in property and equipment, which are leased to others are as follows:

(In thousands)	March 31, 2001	March 25, 2000
Land and improvements	\$ 13,889	\$ 13,952
Buildings	33,168	39,509
	<u>47,057</u>	<u>53,461</u>
Less accumulated depreciation	<u>12,623</u>	<u>13,499</u>
Net property	<u>\$ 34,434</u>	<u>\$ 39,962</u>

Future minimum rentals to be received under operating leases in effect at March 31, 2001 are as follows:

Year Ending March,	Owned Property	Leased Property	Total
2002	\$ 5,489	\$ 1,483	\$ 6,972
2003	5,153	1,300	6,453
2004	4,696	1,260	5,956
2005	4,254	1,260	5,514
2006	3,725	1,086	4,811
Later	22,450	6,596	29,046
Total	<u>\$ 45,767</u>	<u>\$ 12,985</u>	<u>\$ 58,752</u>



## Associate Retirement Plans

Spartan Stores retirement programs include pension plans providing non-contributory benefits, salary reduction defined contribution plans and profit sharing plans providing contributory benefits. Substantially all of Spartan Stores associates not covered by collective bargaining agreements are covered by either a non-contributory cash balance pension plan (Company Plan), a defined contribution plan or both. Associates covered by collective bargaining agreements are included in multi-employer pension plans.

Spartan Stores' Company Plan benefit formula is designed to utilize a cash balance approach. Under the cash balance formula, credits are added annually to a participant's "account" based on a percentage of the participant's compensation and years of vested service at the beginning of each calendar year. Interest credits are also added annually to a participant's "account" based upon the participant's account balance as of the last day of the immediately preceding calendar year. Transition credits are also added to a participant's account until the year 2007 if certain age requirements are met. Annual payments to the pension trust fund are determined in compliance with the Employee Retirement Income Security Act (ERISA) of 1976. Company Plan assets consist principally of common stocks and U.S. Government and corporate obligations. At March 31, 2001 and March 25, 2000, Company Plan assets included shares of Spartan Stores common stock valued at \$1.8 million and \$1.9 million, respectively.

Matching contributions made by Spartan Stores to salary reduction defined contribution plans and contributions to profit sharing plans aggregated \$3.7 million, \$3.0 million, and \$2.0 million in 2001, 2000, and 1999, respectively.

In addition to the plans described above, Spartan Stores participates in several multi-employer and other defined contribution plans for substantially all associates covered by collective bargaining agreements. The expense for these plans aggregated approximately \$6.5 million in 2001, \$5.9 million in 2000, and \$5.3 million in 1999.

The Multi-Employer Pension Plan Amendments Act of 1980 amended ERISA to establish funding requirements and obligations for employers participating in multi-employer plans, principally related to employer withdrawal from or termination of such plans. Separate actuarial calculations of Spartan Stores' position are not available with respect to the multi-employer plans.

Spartan Stores and certain subsidiaries provide health care benefits to retired associates who have at least ten years of service and have attained age fifty-five, and who were not covered by collective bargaining arrangements during their employment (covered associates). Qualified covered associates retiring prior to March 31, 1992 receive major medical insurance with deductible and coinsurance provisions until age sixty-five and Medicare supplemental benefits thereafter. Covered associates retiring after April 1, 1992, are eligible for monthly post-retirement health care benefits of five dollars multiplied by the associate's years of service. This benefit is in the form of a credit against the monthly insurance premium. The balance of the premium is paid by the retiree.

The following tables set forth the change in benefit obligation, change in plan assets, weighted average assumptions used in actuarial calculations and components of net periodic benefit costs for Spartan Stores' pension and post-retirement benefit plans. The accrued benefit costs are reported in the balance sheet under the caption "post-retirement benefits." For the year ended March 31, 2001, Spartan Stores

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changed the measurement date to December 31, 2000. The effect of changing the measurement date did not have a material impact on the consolidated financial statements.

(In thousands)	Pension Benefits		Post-Retirement Benefits	
	March 31, 2001	March 25, 2000	March 31, 2001	March 25, 2000
Beginning of year	03/26/00	03/28/99	03/26/00	03/28/99
Measurement date	12/31/00	03/25/00	12/31/00	03/25/00
End of year	03/31/01	03/25/00	03/31/01	03/25/00
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 49,134	\$ 49,809	\$ 4,460	\$ 4,938
Service cost	3,736	3,834	178	210
Interest cost	3,772	3,331	350	338
Actuarial loss (gain)	1,964	(4,158)	207	(485)
Benefits paid	(4,692)	(3,682)	(341)	(541)
Benefit obligation at measurement date	\$ 53,914	\$ 49,134	\$ 4,854	\$ 4,460
<b>Change in plan assets</b>				
Plan assets at fair value at beginning of year	\$ 58,772	\$ 52,253	\$ -	\$ -
Actual return on plan assets	(2,387)	8,232	-	-
Company contributions	41	1,969	341	541
Benefits paid	(4,692)	(3,682)	(341)	(541)
Plan assets at fair value at measurement date	\$ 51,734	\$ 58,772	\$ -	\$ -
Funded status	\$ (2,180)	\$ 9,638	\$ (4,854)	\$ (4,460)
Unrecognized net (gain)/loss	(388)	(9,665)	942	760
Unrecognized prior service cost	(5,408)	(5,771)	(1,186)	(1,251)
Unrecognized net transition obligation	26	32	-	-
Accrued benefit cost at measurement date	(7,950)	(5,766)	(5,098)	(4,951)
Contributions during fourth quarter	82	-	114	-
	\$ (7,868)	\$ (5,766)	\$ (4,984)	\$ (4,951)

Accrued benefit cost at end of year	_____	_____	_____	_____
<b>Weighted average assumptions at measurement date</b>				
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Rate of compensation increase	4.75%	4.75%	N/A	N/A

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(In thousands)

Components of net periodic benefit cost	Pension Benefits		
	March 31, 2001	March 25, 2000	March 27, 1999
Service cost	\$ 3,736	\$ 3,834	\$ 3,605
Interest cost	3,772	3,331	3,174
Annual return on plan assets	(4,916)	(4,346)	(4,067)
Net amortization and deferral	(367)	(319)	(333)
Net periodic benefit cost	\$ 2,225	\$ 2,500	\$ 2,379

(In thousands)

Components of net periodic benefit cost	Post-Retirement Benefits		
	March 31, 2001	March 25, 2000	March 27, 1999
Service cost	\$ 178	\$ 210	\$ 207
Interest cost	350	338	322
Net amortization and deferral	(40)	(26)	(23)
Net periodic benefit cost	\$ 488	\$ 522	\$ 506

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement plan. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was five percent for the fiscal years ended March 31, 2001, March 25, 2000 and March 27, 1999. A one percent increase in the

assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation by 1.10 percent and the periodic post-retirement benefit cost by .75 percent. A one percent decrease in the assumed health care cost trend rate would decrease the accumulated post-retirement benefit obligation by 1.00 percent and periodic post-retirement benefit cost by .68 percent.

**Note 10**

## Taxes on Income

The income tax provision is summarized as follows:

(In thousands)	March 31, 2001	March 25, 2000	March 27, 1999
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Currently payable	\$ 10,634	\$ 6,952	\$ 7,185
Net deferred	3,291	2,701	724
	<u>                    </u>	<u>                    </u>	<u>                    </u>
	\$ 13,925	\$ 9,653	\$ 7,909
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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The effective income tax rates are different from the statutory federal income tax rates for the following reasons:

	2001	2000	1999
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Statutory income tax rate	35.0%	35.0%	35.0%
State income taxes	1.2	0.7	0.9
Other	1.4	1.8	0.8
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Effective income tax rate	37.6%	37.5%	36.7%
	<u>                    </u>	<u>                    </u>	<u>                    </u>

Deferred tax assets and liabilities resulting from temporary differences as of March 31, 2001 and March 25, 2000 are as follows:

(In thousands)	2001	2000
	<u>                    </u>	<u>                    </u>
Deferred tax assets:		
Employee benefits	\$ 12,390	\$ 7,553
Accounts receivable	1,111	777

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Insurance reserves	536	284
Research and development credit	1,309	1,309
Restructuring charge	-	170
Impairment losses	1,950	933
All other	1,211	24
	<hr/>	<hr/>
Total deferred tax assets	18,507	11,050
	<hr/>	<hr/>
Deferred tax liabilities:		
Depreciation	18,685	8,907
Inventory	6,980	995
All other	2,788	951
Total deferred tax liabilities	28,453	10,853
	<hr/>	<hr/>
Net deferred tax asset/(liability)	\$ (9,946)	\$ 197
	<hr/>	<hr/>

**Note 11**

Supplemental Cash Flow Information

Payments for interest and income taxes were as follows:

(In thousands)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Interest	\$ 34,211	\$ 17,850	\$ 10,896
Income taxes	\$ 14,614	\$ 6,565	\$ 15,638

During fiscal year 2001, in conjunction with the acquisitions of Food Town and Prevo's, Spartan Stores assumed certain liabilities approximating \$110.1 million. In addition, Spartan issued 6.2 million shares of Spartan Stores' common stock in exchange for the Food Town common stock totaling \$70.9 million.

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During fiscal year 2000, in conjunction with the acquisitions of Family Fare, Glen's, and Great Day, Spartan Stores assumed certain liabilities approximating \$43.1 million. In addition, approximately \$28.7 million (net of cash acquired) was on deposit at March 27, 1999 for the purchase of Family Fare. Also, Spartan Stores had approximately \$6.9 million on deposit at March 27, 1999 for the redemption of common stock that occurred during the quarter ended June 20, 1999.

During fiscal year 1999, Spartan Stores refinanced \$99.4 million of bank borrowings in connection with the \$425 million senior secured credit facility. In conjunction with the acquisition of Ashcraft's Markets, Inc., Spartan Stores assumed certain liabilities of \$2.6 million. Spartan Stores received restricted cash of \$78.1 million from proceeds from long-term borrowing.

**Note 12**

## Shareholders' Equity

On July 18, 2000, the shareholders approved a proposal to amend Spartan Stores' articles of incorporation and bylaws in connection with the merger with Food Town. Accordingly, each outstanding share of Spartan Stores Class A common stock, \$2.00 par value, was converted into one share of Spartan Stores common stock, no par value.

On August 1, 2000, 6.7 million shares of outstanding Food Town common stock were converted into the right to receive one share of Spartan Stores common stock and \$5.00 in cash for each Food Town share. The holders of 448,835 shares of Food Town common stock provided notice of dissent from the merger. In addition, Spartan Stores declared a stock split pursuant to a stock dividend of 0.336 shares of Spartan Stores' common stock for each share outstanding immediately prior to the merger. Accordingly, per share amounts have been restated throughout the consolidated financial statements. On August 2, 2000, Spartan Stores obtained a listing on the Nasdaq National Market under the trading symbol of "SPTN" for its common stock.

On September 12, 2000, Spartan Stores announced that the board of directors had authorized the purchase of up to \$5 million of the corporation's common stock over a twelve-month period. As of March 31, 2001, Spartan Stores had purchased 329,808 shares at a total cost of \$2.6 million.

Spartan Stores has a shareholder-approved stock option plan covering 668,000 shares of Spartan Stores common stock. The plan provides for the granting of incentive stock options as well as non-qualified stock options to corporate officers. Spartan Stores accounts for stock option grants in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting For Stock-Based Compensation," and as allowed by this statement recognizes expense using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 and related interpretations. Accordingly, no compensation cost has been recognized for stock option grants since the options have exercise prices equal to the fair market value at the date of grant. Options must be exercised within ten years of the date of grant. The authorization to grant options under the plan terminates on October 31, 2001.

The vesting of Spartan Stores' stock option grants range from immediately to three years from the date of grant. If compensation cost for stock option grants had been determined based on the fair value at the grant dates consistent with the method prescribed by SFAS No. 123, Spartan Stores' net earnings and earnings per share would have been adjusted to the pro forma amounts indicated below:

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(In thousands, except per share data)

	2001	2000	1999
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net earnings - as reported	\$ 23,442	\$ 17,194	\$ 14,799
Net earnings - pro forma	\$ 23,186	\$ 17,164	\$ 14,772
Basic and diluted earnings per share			
- as reported	\$ 1.35	\$ 1.28	\$ 1.02
Basic and diluted earnings per share			

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- pro forma \$ 1.34 \$ 1.28 \$ 1.02  
 Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2001	2000	1999
Dividend yield	0.00%	0.10%	0.10%
Expected volatility	37.00%	8.10%	8.79%
Risk-free interest rate	4.95 - 6.47%	6.00%	5.87%
Expected life of option	6 yrs.	10 yrs.	10 yrs.
	Shares Under Options	Weighted Average Exercise Price	Fair Value of Options Granted
<b>Options outstanding at March 29, 1998</b>	36,072	\$ 7.55	
Granted	10,688	9.21	\$ 5.25
Exercised	(4,008)	7.93	
<b>Options outstanding at March 27, 1999</b>	42,752	\$ 7.93	
Granted	12,024	9.96	\$ 5.78
Options cancelled	(2,672)	9.58	
<b>Options outstanding at March 25, 2000</b>	52,104	\$ 8.31	
Granted	339,696	5.84 - 9.96	\$ 2.63 - 4.74
Options cancelled	(22,712)	9.02	
<b>Options outstanding and exercisable at March 31, 2001</b>	369,088	\$ 7.58	

The following table sets forth options outstanding at March 31, 2001 by exercise price and remaining contractual life.

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life Yrs.
\$ 6.29 - 7.86	13,360	1.1 - 5.1
8.46 - 9.96	20,040	6.2 - 8.1
5.84 - 9.96	335,688	9.1 - 9.9
\$ 5.84 - 9.96	369,088	9.19

Spartan Stores has a shareholder-approved stock bonus plan covering 668,000 shares of Spartan Stores common stock. Stock issued to employees under the stock bonus plan is appropriately accounted for in accordance with APB 25, "Accounting for Stock Issued to Employees." Compensation expense is recorded based upon the market price of the stock as of the measurement date. Under the provisions of this plan, officers and certain key employees of Spartan Stores may elect to receive a portion of their annual bonus in common stock rather than cash and will be granted additional shares of stock worth thirty percent of the portion of the bonus they elect to receive in stock. At March 31, 2001, 372,373 shares remained unissued under the plan.

Spartan Stores has an associate stock purchase plan approved by the shareholders covering 668,000 shares of Spartan Stores common stock. The plan provides that associates of Spartan Stores and its subsidiaries may purchase shares at the fair market value. At March 31, 2001, 616,775 shares remained unissued under the plan. Spartan Stores has a long-term incentive plan covering 668,000 shares of Spartan Stores common stock. Under the provisions of this plan, stock is awarded based on the achievement of board established performance levels. No amounts have been issued under this plan to date.

Spartan Stores' Restated Articles of Incorporation provide that the board of directors may at any time, and from time to time, provide for the issuance of up to 10.0 million shares of preferred stock in one or more series, each with such designations as adopted by the board of directors. At March 31, 2001, there were no preferred shares outstanding.

On October 11, 2000, the Board of Directors adopted the Spartan Stores, Inc. Directors' Stock Purchase Plan covering 25,000 shares of Spartan Stores common stock. The Plan provides that directors of Spartan Stores may elect to receive at least 25% and up to 100% of their director's fees in the form of Spartan Stores common stock. At March 31, 2001, 6,542 shares have been issued under this plan.

### Note 13

#### Operating Segment Information

Using the management approach as required by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," Spartan Stores' operating segments were identified by products sold and customer profile and include retail grocery, grocery store distribution, convenience store distribution, and real estate.



distribution businesses, Spartan Stores classified its insurance segment as a discontinued operation for the fiscal year ended March 31, 2001. Refer to Note 3, Divestiture, for further discussion.

Spartan Stores' retail grocery segment operates 102 supermarkets and 25 drug stores in Michigan and Ohio. Spartan Stores' retail grocery stores typically offer dry grocery, produce, dairy products, meat, floral, seafood, health and beauty care, cosmetics, delicatessen and bakery goods. Spartan Stores' larger stores also typically offer pharmacy and banking facilities.

Spartan Stores' grocery store distribution segment provides its own retail grocery segment and approximately 350 independent customers with a selection of over 40,000 items, including dry grocery, produce, dairy products, meat, frozen food, seafood, floral, general merchandise, tobacco, pharmacy and health and beauty care items. To supply its wholesale customers, Spartan Stores operates a fleet of approximately 112 tractors, 201 conventional trailers and 176 refrigerated trailers, substantially all of which are leased by Spartan Stores.

Spartan Stores' convenience store distribution segment provides a selection of confections, tobacco products, specialty foods and other grocery products to approximately 6,600 convenience stores and other retail locations in Michigan, Indiana, Kentucky, Ohio, Pennsylvania, Georgia, Tennessee and West Virginia. Spartan Stores also operates 12 cash and carry outlets in Michigan and Ohio.

Spartan Stores' real estate segment owns eight shopping centers with approximately 580,000 square feet and eight free-standing locations with approximately 350,000 square feet. Spartan Stores leases these properties to grocery store customers supplied by Spartan Stores and to other retailers. Spartan Stores leases 11 sites for sublease to grocery store customers that it supplies. Spartan Stores also owns several parcels of vacant land that it plans to sell or develop.

Identifiable assets represent total assets directly associated with the various operating segments. Eliminations in assets identified to segments include intercompany receivables, payables and investments.

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The following table sets forth, for each of the last three fiscal years, information required by SFAS No. 131:

(In thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>
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**Net sales**

Retail grocery	\$ 1,160,596	\$ 540,068	\$ -
Grocery store distribution	1,422,548	1,565,803	1,803,551
Convenience store distribution	915,242	914,757	841,793
Real estate	7,537	10,289	10,510
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ 3,505,923	\$ 3,030,917	\$ 2,655,854
	<u>                    </u>	<u>                    </u>	<u>                    </u>

**Restructuring charge**

Grocery store distribution	\$ -	\$ (4,521)	\$ 5,698
Convenience store distribution	1,000	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ 1,000	\$ (4,521)	\$ 5,698
	<u>                    </u>	<u>                    </u>	<u>                    </u>

**Interest expense**

Retail grocery	\$ 19,668	\$ 14,419	\$ -
Grocery store distribution	6,599	7,741	5,309
Convenience store distribution	2,830	2,685	1,914
Real estate	2,146	2,449	1,985
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ 31,243	\$ 27,294	\$ 9,208
	<u>                    </u>	<u>                    </u>	<u>                    </u>

**Interest income**

Retail grocery	\$ (32)	\$ (90)	\$ -
Grocery store distribution	(2,884)	(2,507)	(1,249)
Convenience store distribution	(82)	(405)	(436)
Real estate	(1,201)	(1,490)	(28)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	\$ (4,199)	\$ (4,492)	\$ (1,713)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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(In thousands)	2001	2000	1999
<b>Depreciation and amortization (excluding amortization of debt issuance costs)</b>			
Retail grocery	\$ 20,866	\$ 10,925	\$ -
Grocery store distribution	13,148	14,559	16,373
Convenience store distribution	2,471	2,663	2,523
Real estate	1,503	2,394	2,349
	<u>37,988</u>	<u>30,541</u>	<u>21,245</u>
Total	\$ 37,988	\$ 30,541	\$ 21,245
<b>Earnings before income taxes, discontinued operations and extraordinary item</b>			
Retail grocery	\$ 7,718	\$ (3,706)	\$ -
Grocery store distribution	14,667	16,637	2,328
Convenience store distribution	9,402	10,028	15,324
Real estate	5,173	2,685	3,799
	<u>36,960</u>	<u>25,644</u>	<u>21,451</u>
Total	\$ 36,960	\$ 25,644	\$ 21,451
<b>Income taxes</b>			
Retail grocery	\$ 2,822	\$ (1,299)	\$ -
Grocery store distribution	5,890	6,278	1,014
Convenience store distribution	3,376	3,734	5,526
Real estate	1,837	940	1,369
	<u>13,925</u>	<u>9,653</u>	<u>7,909</u>
Total	\$ 13,925	\$ 9,653	\$ 7,909
<b>Income from discontinued operations (net of income taxes of \$434, \$653 and \$1,239)</b>			
Insurance	\$ 407	\$ 1,203	\$ 2,288
	<u>407</u>	<u>1,203</u>	<u>2,288</u>
<b>Extraordinary item (net of</b>			

**income taxes of \$554)**

Grocery store distribution	\$	-	\$	-	\$	(1,031)
		<u>          </u>		<u>          </u>		<u>          </u>

**Capital expenditures**

Retail grocery	\$	19,702	\$	2,892	\$	-
Grocery store distribution		12,919		8,589		12,061
Convenience store distribution		757		1,394		2,692
Real estate		3,126		1,563		1,480
		<u>          </u>		<u>          </u>		<u>          </u>
 Total	\$	36,504	\$	14,438	\$	16,233
		<u>          </u>		<u>          </u>		<u>          </u>

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(In thousands)	2001	2000	1999
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>			
Retail grocery	\$ 489,470	\$ 203,270	\$ -
Grocery store distribution	562,983	428,358	426,891
Convenience store distribution	83,312	80,949	84,693
Real estate	56,951	63,374	60,699
Discontinued operations - insurance segment	31,068	28,987	30,354
Less - eliminations	(412,939)	(234,365)	(79,259)
	<u>          </u>	<u>          </u>	<u>          </u>
 Total	\$ 810,845	\$ 570,573	\$ 523,378
	<u>          </u>	<u>          </u>	<u>          </u>

**Note 14**

## Quarterly Financial Information (unaudited)

Earnings per share amounts for each quarter are required to be computed independently and may not equal the amount computed for the total year. Common stock prices are shown beginning August 2, 2000 as Spartan became publicly traded on Nasdaq on this date. See further discussion in Note 12, Shareholders' Equity.

(In thousands, except per share data)

Fiscal Year 2001	Full Year (53 weeks)	4 <sup>th</sup> Quarter (13 weeks)	3 <sup>rd</sup> Quarter (16 weeks)	2 <sup>nd</sup> Quarter (12 weeks)	1 <sup>st</sup> Quarter (12 weeks)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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Sales	\$	3,505,923	\$	865,617	\$	1,135,844	\$	782,320	\$	722,142
Gross profit		545,341		143,100		188,540		122,355		91,346
Earnings before income taxes and discontinued operations		36,960		4,452		11,695		15,124		5,689
Net earnings		23,442		3,399		7,303		8,995		3,745
Earnings from continuing operations per share:										
Basic		1.33		0.17		0.36		0.55		0.28
Diluted		1.33		0.17		0.36		0.55		0.28
Net earnings per share:										
Basic		1.35		0.18		0.37		0.55		0.28
Diluted		1.35		0.17		0.37		0.55		0.28
Common stock price:										
High		11.81		11.50		7.88		11.81		-
Low		5.00		6.00		5.00		5.34		-

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(In thousands, except per share data)

<b>Fiscal Year 2000</b>		Full Year (52 weeks)	4 <sup>th</sup> Quarter (12 weeks)	3 <sup>rd</sup> Quarter (16 weeks)	2 <sup>nd</sup> Quarter (12 weeks)	1 <sup>st</sup> Quarter (12 weeks)				
Sales	\$	3,030,917	\$	685,434	\$	950,842	\$	714,415	\$	680,226
Gross profit		387,427		91,202		122,158		94,565		79,502
Earnings before income taxes and discontinued operations		25,644		257		10,111		7,990		7,286
Net earnings		17,194		339		6,791		5,133		4,931
Earnings from continuing operations per share:										
Basic		1.19		0.01		0.47		0.38		0.35
Diluted		1.19		0.01		0.47		0.38		0.35
Net earnings per share:										
Basic		1.28		0.03		0.51		0.38		0.36
Diluted		1.28		0.03		0.51		0.38		0.36
Common stock price:										
High		-		-		-		-		-
Low		-		-		-		-		-

**PART IV**

**Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a) The following documents are filed as part of this Report:

**1. Financial Statements.**

Independent Auditors' Report of Deloitte & Touche LLP dated May 2, 2001

Consolidated Balance Sheets at March 31, 2001 and March 25, 2000

Consolidated Statements of Earnings for each of the three years in the period ended March 31, 2001

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended March 31, 2001

Consolidated Statements of Cash Flows for each of the three years in the period ended March 31, 2001

Notes to Consolidated Financial Statements

**2. Financial Statement Schedules.**

Schedule

Document

II

Valuation and Qualifying Accounts

**3. Exhibits.** The list of exhibits is amended by substituting Exhibits 23 and 24, as listed in the Exhibit Index attached hereto, for the previous Exhibits 23 and 24. All other information pertaining to this subsection is as set forth in the Original Filing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Spartan Stores, Inc. (the Registrant) has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPARTAN STORES, INC.  
(Registrant)

Date: May 24, 2002

By /s/ James B. Meyer\*

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James B. Meyer  
President, Chief Executive Officer and  
Chairman of the Board

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Spartan Stores, Inc. and in the capacities and on the dates indicated.

May 24, 2002

By:/s/ Alex J. DeYonker

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Alex J. DeYonker  
Director

May 24, 2002

By:/s/ Elson S. Floyd, Ph.D.\*

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Elson S. Floyd, Ph.D.  
Director

May 24, 2002

By:/s/ Richard B. Iott\*

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Richard B. Iott  
Director

May 24, 2002

By:/s/ Joel A. Levine\*

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Joel A. Levine  
Director

May 24, 2002

By:/s/ James B. Meyer\*



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James B. Meyer  
Director

May 24, 2002

By:/s/ Elizabeth A. Nickels\*

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Elizabeth A. Nickels  
Director

May 24, 2002

By:/s/ Russell H. VanGilder, Jr.\*

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Russell H. VanGilder, Jr.  
Director

May \_\_, 2002

By:

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Gregory P. Josefowicz  
Director

May \_\_, 2002

By:

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Kenneth T. Stevens  
Director

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May 24, 2002

By:/s/ David M. Staples

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David M. Staples  
Executive Vice President and Chief Financial Officer

May 24, 2002

By:/s/ Alex J. DeYonker

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Alex J. DeYonker  
Attorney-in-Fact

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SCHEDULE II

## SPARTAN STORES, INC. AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>ADDITIONS</u>	<u>COLUMN D</u>	<u>COLUMN E</u>
DESCRIPTION	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS <sup>(A)</sup>	DEDUCTIONS <sup>(B)</sup>	BALANCE AT END OF YEAR
ALLOWANCE FOR DOUBTFUL ACCOUNTS:					
Year ended 3/27/99	\$ 1,810,000	\$ 1,534,842		\$ 1,009,842	\$ 2,335,000
Year ended 3/25/00	\$ 2,335,000	\$ 1,484,094		\$ 1,405,094	\$ 2,414,000
Year ended 3/31/01	\$ 2,414,000	\$ 789,526	\$ 613,652	\$ 1,057,178	\$ 2,760,000
INSURANCE RESERVES:					
Year ended 3/27/99	\$ 15,799,160	\$ 5,488,791		\$ 7,123,887	\$ 14,164,064
Year ended 3/25/00	\$ 14,164,064	\$ 8,093,990		\$ 7,539,932	\$ 14,718,122

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Year ended 3/31/01                    \$ 14,718,122                    \$ 12,600,704                    \$ 4,932,182                    \$ 12,269,826                    \$ 19,981,182

(A) Represents the allowances and reserves acquired through acquisitions

(B) Represents the write-off of uncollectible accounts as it relates to the allowance for doubtful accounts and payments made as it relates to insurance reserves.

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**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Document</u>
23	Consent of Deloitte & Touche LLP.
24	Powers of Attorney.

