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

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

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

[X] 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.

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

LIST OF ITEMS AMENDED

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

Item 6. Selected Financial Data.

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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.

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:

	High	Low
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.

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

Operations Statement Data:					
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
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)
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
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)	-	-
Net earnings	$ 23,442	$ 17,194	$ 14,799	$ 14,234	$ 9,703
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

(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

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 53rd 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 53rd 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 milion. 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

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

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.

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

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)

Assets	March 31, 2001	March 25, 2000
Current assets		
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
Total current assets	327,538	256,780
Other assets		
Goodwill, net	155,737	101,170
Other, net	38,427	34,032
Total other assets	194,164	135,202
Property and equipment		
Land and improvements	48,293	32,152
Buildings and improvements	203,964	141,461
Equipment	246,861	179,746
Total property and equipment	499,118	353,359
Less accumulated depreciation and amortization	209,975	174,768
Net property and equipment	289,143	178,591
Total assets	$ 810,845	$ 570,573

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (continued)

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

Liabilities and Shareholders' Equity	March 31, 2001	March 25, 2000
Current liabilities		
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
Total current liabilities	250,606	162,566
Deferred taxes on income	16,594	5,212
Postretirement benefits	12,852	10,717
Long-term debt	306,632	266,071
Other long-term liabilities	5,748	-
Shareholders' equity		
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
Total shareholders' equity	218,413	126,007

Total liabilities and shareholders' equity	$ 810,845	$ 570,573

See notes to consolidated financial statements.

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**
Net sales	$ 3,505,923	$ 3,030,917	$ 2,655,854
Cost of goods sold	2,960,582	2,643,490	2,397,818
Gross margin	545,341	387,427	258,036
Other costs and expenses			
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)
Total other costs and expenses	508,381	361,783	236,585
Earnings before income taxes, discontinued operations and extraordinary item	36,960	25,644	21,451
Income taxes	13,925	9,653	7,909

Earnings before discontinued operations and extraordinary item	23,035	15,991	13,542
Discontinued operations			
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)	-	-
Earnings from discontinued operations	407	1,203	2,288
Earnings before extraordinary item	23,442	17,194	15,830
Extraordinary item (net of income taxes of $554)	-	-	(1,031)
Net earnings	$ 23,442	$ 17,194	$ 14,799
Basic and diluted earnings per share:			
Earnings from continuing operations	$ 1.33	$ 1.19	$ 0.93
Net earnings	$ 1.35	$ 1.28	$ 1.02
Weighted average shares:			
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)

		Shares Outstanding	Common Stock Amount	Class A Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance	March 29, 1998	11,444	$ -	$ 22,888	$ 16,432	$ 74,872	$ 114,192
Class A common stock transactions	Purchases	(847)					