

SPARTAN STORES INC
Form 10-Q
October 24, 2013

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

FORM 10-Q

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

For the quarterly period ended September 14, 2013.

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, S.W.

P.O. Box 8700

Grand Rapids, Michigan
(Address of Principal Executive Offices)

49518
(Zip Code)

(616) 878-2000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act) Yes No

As of October 21, 2013 the registrant had 21,874,509 outstanding shares of common stock, no par value.

FORWARD-LOOKING STATEMENTS

The matters discussed in this Quarterly Report on Form 10-Q, in our press releases and in our website-accessible conference calls with analysts and investor presentations include forward-looking statements about the plans, strategies, objectives, goals or expectations of Spartan Stores, Inc. and subsidiaries (Spartan Stores). These forward-looking statements are identifiable by words such as expects, anticipates, plans, believes, estimates, guess, outlook or is confident that a particular occurrence or event began, will, may, could, should or will likely occur, or appears to have occurred, or will continue in the future, that a development is an opportunity, a priority, a strategy, or initiative or similarly stated expectations. Accounting estimates, such as those described under the heading Critical Accounting Policies in Part I, Item 2 of this Form 10-Q, are inherently forward-looking. Our asset impairment, restructuring cost provisions and fair value measurements are estimates and actual costs may be more or less than these estimates and differences may be material. You should not place undue reliance on these forward-looking statements, which speak only as of the date of the Quarterly Report, release, presentation, or statement.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q, Spartan Stores Annual Report on Form 10-K for the year ended March 30, 2013 (in particular, you should refer to the discussion of Risk Factors in Item 1A of our Annual Report on Form 10-K) and other periodic reports filed with the Securities and Exchange Commission, there are many important factors that could cause actual results to differ materially. Our ability to maintain and improve our retail-store performance; assimilate acquired stores or merged businesses; maintain or grow sales; respond successfully to competitors, the weak economic environment or changing consumer behavior; maintain or increase gross margin; anticipate and successfully respond to openings of competitors; maintain or improve customer and supplier relationships; realize expected benefits of new customer relationships or capital investments, new retail banners, loyalty programs, warehouse consolidations, and store openings; realize growth opportunities; expand our customer base; realize expected synergies; reduce operating costs; generate cash; continue to meet the terms of our debt covenants; continue to pay dividends and repurchase shares; and implement the other programs, initiatives, plans, priorities, strategies, objectives, goals or expectations described in this Quarterly Report, our other reports or presentations, our press releases and our public comments is not certain and will be affected by changes in economic conditions generally or in the markets and geographic areas that we serve, adverse effects of the changing food and distribution industries and other factors including, but not limited to, those discussed below.

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

Our operating and administrative expenses, and as a result, our net earnings and cash flows, may be adversely affected by changes in costs associated with, among other factors: difficulties in the operation of our business segments; future business acquisitions; adverse effects on business relationships with independent retail grocery store customers; difficulties in the retention or hiring of employees; labor stoppages or disputes; business and asset divestitures; increased transportation or fuel costs; current or future lawsuits and administrative proceedings; and losses or financial difficulties of customers or suppliers. Our future costs for pension and postretirement benefit costs may be adversely affected by changes in actuarial assumptions and methods, investment policy, actual investment return, the total amount of lump-sum payments to plan participants which could trigger settlement accounting and the composition of the group of employees and retirees covered, changes in our business that result in a withdrawal liability under

multi-employer plans, the actions, contributions and financial condition of other employers who participate in multi-employer plans to which we contribute and the funding levels of these plans. Our future income tax expense, and as a result, our net earnings and cash flows, could be adversely affected by changes in tax laws and related interpretations. Our accounting estimates could change and the actual effects of changes in accounting principles could deviate from our estimates due to changes in facts, assumptions, or acceptable methods and actual results may vary materially from our estimates. Our operating and administrative expenses, net earnings and cash flow could also be adversely affected by changes in our sales mix. Our ongoing cost

reduction initiatives and changes in our marketing and merchandising programs may not be as successful as anticipated. Acts of terrorism, war, natural disaster, fire, accident, and severe weather may adversely affect the availability of and our ability to operate our warehouses and other facilities, and may adversely affect consumer buying behavior, fuel costs, shipping and transportation costs, product cost inflation or deflation and its impact on LIFO expense. General economic conditions and unemployment, particularly in Michigan, government assistance programs, health care reform, or other circumstances beyond our control, may adversely affect consumer buying behavior. A combination of the aforementioned factors, coupled with prolonged general economic weakness, could result in goodwill and other long-lived asset impairment charges.

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

Although Spartan Stores and Nash-Finch Company (Nash-Finch) have signed a definitive merger agreement, there is no assurance that they will complete the proposed merger. The merger agreement may be terminated if the companies do not receive the necessary approval of Spartan Stores' shareholders or Nash-Finch's stockholders, or if any other conditions to closing are not satisfied. The availability of the loans intended to refinance existing credit facilities of Spartan Stores and Nash-Finch in connection with the merger is subject to the satisfaction of certain conditions set forth in the commitment letter relating to such loans, which is not assured and not all of which are within Spartan Stores' control. Additional risks and uncertainties related to the proposed merger include, but are not limited to, the successful integration of Spartan Stores' and Nash-Finch's business and the combined company's ability to compete in the highly competitive grocery distribution, retail grocery and military and exchange distribution channels.

This section is intended to provide meaningful cautionary statements. This should not be construed as a complete list of all economic, competitive, governmental, technological and other factors that could adversely affect our expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to Spartan Stores or that Spartan Stores currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. We undertake no obligation to update or revise our forward-looking statements to reflect developments that occur or information obtained after the date of this Quarterly Report.

SPARTAN STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 14, 2013	March 30, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 5,545	\$ 6,097
Accounts receivable, net	59,207	60,979
Inventories, net	141,358	124,657
Prepaid expenses	9,588	10,822
Other current assets	1,325	1,304
Deferred taxes on income	1,900	2,310
Total current assets	218,923	206,169
Goodwill	246,437	246,840
Other, net	63,992	64,532
Property and equipment, net	268,337	272,126
Total assets	\$ 797,689	\$ 789,667
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 137,899	\$ 120,651
Accrued payroll and benefits	31,543	38,356
Accrued income taxes	4,059	6,132
Other accrued expenses	21,392	23,784
Current maturities of long-term debt and capital lease obligations	3,983	4,067
Total current liabilities	198,876	192,990
Long-term liabilities		
Deferred income taxes	80,833	80,578
Postretirement benefits	14,598	14,092
Other long-term liabilities	17,853	20,476
Long-term debt and capital lease obligations	137,981	145,876
Total long-term liabilities	251,265	261,022
Commitments and contingencies (Note 6)		
Shareholders' equity		
Common stock, voting, no par value; 50,000 shares authorized; 21,875 and 21,751 shares outstanding	147,251	146,564
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding		
Accumulated other comprehensive loss	(13,275)	(13,687)

Retained earnings	213,572	202,778
Total shareholders equity	347,548	335,655
Total liabilities and shareholders equity	\$ 797,689	\$ 789,667

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	12 Weeks Ended		24 Weeks Ended	
	September 14, 2013	September 15, 2012	September 14, 2013	September 15, 2012
Net sales	\$ 649,471	\$ 621,559	\$ 1,261,876	\$ 1,225,471
Cost of sales	513,175	491,333	1,000,304	973,525
Gross profit	136,296	130,226	261,572	251,946
Operating expenses				
Selling, general and administrative	118,232	110,922	232,585	220,929
Restructuring and asset impairment		356	987	356
Total operating expenses	118,232	111,278	233,572	221,285
Operating earnings	18,064	18,948	28,000	30,661
Other income and expenses				
Interest expense	2,197	3,071	4,462	6,227
Other, net	(3)	(681)	(12)	(729)
Total other income and expenses	2,194	2,390	4,450	5,498
Earnings before income taxes and discontinued operations	15,870	16,558	23,550	25,163
Income taxes	5,755	6,203	8,651	8,732
Earnings from continuing operations	10,115	10,355	14,899	16,431
Loss from discontinued operations, net of taxes	(65)	(50)	(166)	(123)
Net earnings	\$ 10,050	\$ 10,305	\$ 14,733	\$ 16,308
Basic earnings per share:				
Earnings from continuing operations	\$ 0.46	\$ 0.48	\$ 0.68	\$ 0.75
Loss from discontinued operations		(0.01)*	(0.01)	*
Net earnings	\$ 0.46	\$ 0.47	\$ 0.67	\$ 0.75
Diluted earnings per share:				
Earnings from continuing operations	\$ 0.46	\$ 0.47	\$ 0.68	\$ 0.75
Loss from discontinued operations			(0.01)	*
Net earnings	\$ 0.46	\$ 0.47	\$ 0.67	\$ 0.75

Weighted average shares outstanding:

Basic	21,884	21,747	21,847	21,800
Diluted	21,977	21,824	21,935	21,880

See accompanying notes to condensed consolidated financial statements.

* *Includes Rounding*

SPARTAN STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	12 Weeks Ended		24 Weeks Ended	
	September 14,	September 15,	September 14,	September 15,
	2013	2012	2013	2012
Net earnings	\$ 10,050	\$ 10,305	\$ 14,733	\$ 16,308
Other comprehensive income, before tax				
Recognition of pension and postretirement benefits actuarial loss	335		671	
Total other comprehensive income, before tax	335		671	
Income tax related to items of other comprehensive income	(129)		(259)	
Comprehensive income	\$ 10,256	\$ 10,305	\$ 15,145	\$ 16,308

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(In thousands)

(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
Balance March 30, 2013	21,751	\$ 146,564	\$ (13,687)	\$ 202,778	\$ 335,655
Net earnings				14,733	14,733
Other comprehensive income			412		412
Dividends \$0.18 per share				(3,939)	(3,939)
Stock-based employee compensation		1,790			1,790
Issuances of common stock and related tax benefit on stock option exercises and bonus plan	13	95			95
Issuances of restricted stock and related income tax benefits	212	(32)			(32)
Cancellations of restricted stock	(101)	(1,166)			(1,166)
Balance September 14, 2013	21,875	\$ 147,251	\$ (13,275)	\$ 213,572	\$ 347,548

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	24 Weeks Ended	
	September 14, 2013	September 15, 2012
Cash flows from operating activities		
Net earnings	\$ 14,733	\$ 16,308
Loss from discontinued operations	166	123
Earnings from continuing operations	14,899	16,431
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring and asset impairment charges	987	356
Convertible debt interest		1,794
Depreciation and amortization	18,930	17,564
LIFO expense	953	1,380
Postretirement benefits expense	264	348
Deferred taxes on income	323	6,443
Stock-based compensation expense	1,790	2,282
Excess tax benefit on stock compensation	(107)	(240)
Other, net	(13)	(632)
Changes in operating assets and liabilities:		
Accounts receivable	1,771	(1,188)
Inventories	(17,654)	(37,634)
Prepaid expenses	1,855	(4,124)
Other assets	(45)	2,790
Accounts payable	16,989	21,573
Accrued payroll and benefits	(8,276)	(10,210)
Postretirement benefits	(139)	(508)
Accrued income taxes	(2,328)	(9,763)
Other accrued expenses and other liabilities	(3,258)	(5,767)
Net cash provided by operating activities	26,941	895
Cash flows from investing activities		
Purchases of property and equipment	(16,694)	(21,006)
Net proceeds from the sale of assets	115	2,376
Other	(830)	276
Net cash used in investing activities	(17,409)	(18,354)
Cash flows from financing activities		
Proceeds from revolving credit facility	235,647	181,975
Payments on revolving credit facility	(241,599)	(167,817)

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Share repurchase		(11,381)
Repayment of other long-term debt	(2,028)	(1,815)
Financing fees paid	(27)	(1,260)
Excess tax benefit on stock compensation	107	240
Proceeds from exercise of stock options	151	177
Dividends paid	(1,970)	(1,680)
Net cash used in financing activities	(9,719)	(1,561)
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	(365)	35
Net cash (used in) provided by discontinued operations	(365)	35
Net decrease in cash and cash equivalents	(552)	(18,985)
Cash and cash equivalents at beginning of period	6,097	26,476
Cash and cash equivalents at end of period	\$ 5,545	\$ 7,491

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1

Basis of Presentation and Significant Accounting Policies

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

In the opinion of management, the accompanying financial statements, taken as a whole, contain all adjustments, which are of a normal recurring nature, necessary to present fairly the financial position of Spartan Stores as of September 14, 2013, and the results of its operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Note 2

Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether certain events and circumstances exist that indicate it is more likely than not that an indefinite-lived intangible asset is impaired. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If as a result of the qualitative assessment it is determined that it is not more likely than not that the indefinite-lived intangible asset is impaired, then Spartan Stores is not required to take further action and calculate the fair value of a reporting unit. ASU No. 2012-02 was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption did not have an impact on the financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income . ASU No. 2013-02 requires companies to provide additional information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective lines of net income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. This ASU did not change the requirements for reporting net income or other comprehensive income. Because the standard only affects the presentation of comprehensive income and does not affect what is included in comprehensive income, this standard did not have a material effect on Spartan Stores consolidated financial statements.

Note 3

Merger

On July 21, 2013, Spartan Stores entered into an Agreement and Plan of Merger providing for the merger of Nash-Finch Company with and into a wholly-owned subsidiary of Spartan Stores. At July 22, 2013, the date of the public announcement, the all-stock merger transaction had a preliminary value of approximately \$1.3 billion,

including existing net debt at each company. Under the terms of the transaction, which has been unanimously approved by the boards of directors of both companies, the merger is expected to be a tax-free exchange. Nash-Finch shareholders will receive a fixed ratio of 1.20 shares of Spartan Stores common stock for each share of Nash-Finch common stock they own. Consummation of the Agreement and Plan of Merger is subject to various conditions, including, among other things, the approval by Spartan Stores shareholders and Nash-Finch Company stockholders which will be submitted for consideration by proxy vote on November 18, 2013. Upon closing, which is expected shortly after the shareholder vote, Spartan Stores shareholders will own approximately 57.7% of the equity of the combined company and the former Nash-Finch shareholders will own approximately 42.3%. Additional information regarding this merger can be found in Spartan Stores Registration Statement on Form S-4 filed on August 20, 2013, as amended through October 10, 2013.

On or about July 24, 2013, a putative class action complaint was filed in the District Court for the Fourth Judicial District, State of Minnesota, County of Hennepin, by a stockholder of Nash-Finch in connection with the pending transaction. The action is styled *Greenblatt v. Nash-Finch Co. et al.*, Case No. 27-cv-13-13710. That complaint was amended on August 28, 2013 after Spartan Stores' registration statement was filed with the SEC. On September 9, 2013, the defendants filed motions to dismiss the complaint, which are currently pending before the court. On or about September 19, 2013, a second putative class action complaint was filed in the United States District Court for the District of Minnesota, by a stockholder of Nash-Finch. The action is styled *Benson v. Covington et al.*, Case No. 0:13-cv-02574. The lawsuits allege that the directors of Nash-Finch breached their fiduciary duties by, among other things, approving a merger that provides for inadequate consideration under circumstances involving certain alleged conflicts of interest; that the merger agreement includes allegedly preclusive deal protection provisions; and that Nash-Finch and Spartan Stores allegedly aided and abetted the directors in breaching their duties to Nash-Finch's stockholders. Both complaints also allege that the preliminary joint proxy statement/prospectus was false and misleading due to the omission of a variety of allegedly material information. The complaint in the *Benson* action also asserts additional claims individually on behalf of the plaintiff under the federal securities laws. The actions seek, on behalf of their putative classes, various remedies, including enjoining the merger from being consummated in accordance with its agreed-upon terms, damages, and costs and disbursements relating to the lawsuit.

Note 4

Restructuring and Asset Impairment

Restructuring and asset impairment charges included in the Condensed Consolidated Statements of Earnings consisted of an asset impairment charge of approximately \$1.0 million incurred in the first quarter of fiscal 2014 and \$0.4 million incurred in the second quarter of fiscal 2013 for underperforming stores and a fuel center in the Retail segment.

The following table provides the activity of restructuring costs for the 24 weeks ended September 14, 2013. Accrued restructuring costs recorded in the Condensed Consolidated Balance Sheets are included in Other accrued expenses in Current liabilities and Other long-term liabilities in Long-term liabilities based on when the obligations are expected to be paid.

(In thousands)	
Balance at March 30, 2013	\$ 7,975
Changes in estimates	(433)(a)
Accretion expense	135
Payments	(1,188)
Balance at September 14, 2013	\$ 6,489

(a) Goodwill was reduced by \$0.4 million as a result of these changes in estimates as the initial charges for certain stores were established in the purchase price allocations for previous acquisitions.

Included in the liability are lease obligations recorded at the present value of future minimum lease payments, calculated using a risk-free interest rate, and related ancillary costs from the date of closure to the end of the remaining lease term, net of estimated sublease income.

Note 5**Fair Value Measurements**

Financial instruments include cash and cash equivalents, accounts and notes receivable, accounts payable and long-term debt. The carrying amounts of cash and cash equivalents, accounts and notes receivable, and accounts payable approximate fair value because of the short-term nature of these financial instruments. At September 14, 2013 and March 30, 2013 the estimated fair value and the book value of our debt instruments were as follows:

(In thousands)	September 14, 2013	March 30, 2013
Book value of debt instruments:		
Current maturities of long-term debt and capital lease obligations	\$ 3,983	\$ 4,067
Long-term debt and capital lease obligations	137,981	145,876
Total book value of debt instruments	141,964	149,943
Fair value of debt instruments	144,061	152,758
Excess of fair value over book value	\$ 2,097	\$ 2,815

The estimated fair value of debt is based on market quotes for instruments with similar terms and remaining maturities (level 2 valuation techniques described below).

ASC 820 prioritizes the inputs to valuation techniques used to measure fair value into the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability, reflecting the reporting entities own assumptions about the assumptions that market participants would use in pricing.

Note 6**Commitments and Contingencies**

Various 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 effect on the consolidated financial position, operating results or liquidity of Spartan Stores. See Note 3 regarding a class action claim related to the merger with Nash-Finch Company.

Spartan Stores contributes to the Teamsters Central States multi-employer pension plan based on obligations arising from its collective bargaining agreement covering its warehouse union associates. This plan provides retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed by employers and unions; however, Spartan Stores is not a trustee. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such

matters as the investment of the assets and the administration of the plan. Spartan Stores will continue contributions to the Central States, Southeast and Southwest Areas Pension Fund under the terms outlined in the Primary Schedule of Central States Rehabilitation Plan. This schedule requires an increase in employer contributions of 4% over the previous year's contribution in fiscal years 2014-2016.

Based on the most recent information available to Spartan Stores, we believe that the present value of actuarial accrued liabilities in this multi-employer plan significantly exceeds the value of the assets held in trust to pay benefits. Because we are one of a number of employers contributing to this plan, it is difficult to ascertain what the exact amount of the underfunding would be, although we anticipate that our contributions to this plan will continue to increase each year. Spartan believes that funding levels have not changed significantly since the end of fiscal year 2013. To reduce this underfunding we expect meaningful increases in expense as a result of required incremental multi-employer pension plan contributions in the future. Any adjustment for withdrawal liability will be recorded if it becomes probable that a liability exists and can be reasonably determined.

Note 7**Associate Retirement Plans**

The following table provides the components of net periodic pension and postretirement benefit costs for the second quarters ended September 14, 2013 and September 15, 2012:

(In thousands)	Pension Benefits		SERP Benefits		Postretirement Benefits	
	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012
12 Weeks Ended						
Service cost	\$	\$	\$	\$	\$ 59	\$ 45
Interest cost	518	597	8	10	90	93
Expected return on plan assets	(945)	(1,038)				
Amortization of prior service cost					(14)	(12)
Recognized actuarial net loss	301	295	7	7	41	31
Net periodic (benefit) cost	\$ (126)	\$ (146)	\$ 15	\$ 17	\$ 176	\$ 157

(In thousands)	Pension Benefits		SERP Benefits		Postretirement Benefits	
	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012
24 Weeks Ended						
Service cost	\$	\$	\$	\$	\$ 119	\$ 90
Interest cost	1,035	1,194	15	20	177	186
Expected return on plan assets	(1,889)	(2,076)				
Amortization of prior service cost					(26)	(25)
Recognized actuarial net loss	601	590	14	15	82	63
Net periodic (benefit) cost	\$ (253)	\$ (292)	\$ 29	\$ 35	\$ 352	\$ 314

No contributions have been made to the pension plan in fiscal 2014. No further contribution payments are required to be made in fiscal 2014 to meet the minimum pension funding requirements.

As previously stated in Note 6, Spartan Stores contributes to the Central States, Southeast and Southwest Areas Pension Fund (Fund) (EIN 7456500) at a pro rata fraction of 1% of total contributions. Spartan Stores employer contributions during fiscal 2013 totaled \$8.2 million, which Fund administrators represent is less than 5% of total employer contributions to the Fund. Spartan Stores employer contributions for the twenty-four weeks ended September 14, 2013 and September 15, 2012 were \$4.0 million and \$3.7 million, respectively.

Note 8**Comprehensive Income or Loss**

Spartan Stores reports comprehensive income or loss in accordance with ASU 2012-13, Comprehensive Income, in the financial statements. Total comprehensive income is defined as all changes in shareholders equity during a period,

other than those resulting from investments by and distributions to shareholders. Generally, for Spartan Stores, total comprehensive income equals net earnings plus or minus adjustments for pension and other postretirement benefits.

While total comprehensive income is the activity in a period and is largely driven by net earnings in that period, accumulated other comprehensive income or loss (AOCI) represents the cumulative balance of other comprehensive income, net of tax, as of the balance sheet date. For Spartan Stores, AOCI is the cumulative balance related to pension and other postretirement benefits.

During the second quarter of fiscal 2014, \$0.2 million was reclassified from AOCI to the Condensed Consolidated Statement of Earnings, of which \$0.3 million increased selling, general and administrative expenses and \$0.1 million reduced income taxes. For the year-to-date period ended September 14, 2013 \$0.4 million was reclassified from AOCI to the Condensed Consolidated Statement of Earnings, of which \$0.7 million increased selling, general and administrative expenses and \$0.3 million reduced income taxes.

Note 9**Income Taxes**

The effective income tax rate was 36.3% and 37.5% for the second quarter of fiscal 2014 and 2013, respectively. For the year-to-date period and prior year-to-date period the effective income tax rate was 36.7% and 34.7%, respectively. The difference from the second quarter of fiscal 2014 and 2013 and the fiscal 2014 year-to-date Federal statutory rate was due primarily to state income taxes, partially offset by tax credits. The difference from the fiscal 2013 year-to-date Federal statutory rate was primarily the result of changes to the state of Michigan tax laws. Income tax expense in the first quarter of fiscal 2013 includes a \$0.7 million after-tax benefit due to these changes. Excluding this item the effective tax rate was 37.6%. The fiscal 2014 effective income tax rate could be adversely affected pending the final determination of the tax deductibility of merger related expenses.

Note 10**Stock-Based Compensation**

Spartan Stores has two shareholder-approved stock incentive plans that provide for the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, stock awards, and other stock-based awards to directors, officers and other key associates.

Spartan Stores accounts for stock-based compensation awards in accordance with the provisions of ASC Topic 718 which requires that share-based payment transactions be accounted for using a fair value method and the related compensation cost recognized in the condensed consolidated financial statements over the period that an employee is required to provide services in exchange for the award. Spartan Stores recognized stock-based compensation expense (net of tax) of \$0.5 million (\$0.02 per diluted share) and \$0.6 million (\$0.03 per diluted share) for the second quarters of fiscal 2014 and 2013, respectively, as a component of Operating expenses and Income taxes in the Condensed Consolidated Statements of Earnings. Stock-based compensation expense (net of tax) was \$1.1 million (\$0.05 per diluted share) and \$1.4 million (\$0.06 per diluted share) for the year-to-date period ended September 14, 2013 and September 15, 2012, respectively.

The following table summarizes activity in the share-based compensation plans for the year-to-date period ended September 14, 2013:

	Shares Under Options	Weighted Average Exercise Price	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
Outstanding at March 30, 2013	653,471	\$ 18.82	546,182	\$ 16.59
Granted			211,239	17.66
Exercised/Vested	(8,833)	8.84	(225,600)	16.94
Cancelled/Forfeited	(36,943)	16.89	(28,954)	16.94
Outstanding at September 14, 2013	607,695	\$ 19.08	502,867	\$ 16.86
Vested and expected to vest in the future at September 14, 2013	607,695	\$ 19.08		

Exercisable at September 14, 2013	607,695	\$	19.08
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There were no stock options granted during the year-to-date periods ended September 14, 2013 and September 15, 2012.

As of September 14, 2013, total unrecognized compensation cost related to non-vested share-based awards granted under our stock incentive plans was \$6.9 million for restricted stock. The remaining compensation costs not yet recognized are expected to be recognized over a weighted average period of 2.6 years for restricted stock. All compensation costs related to stock options have been recognized.

Note 11

Discontinued Operations

Results of the discontinued operations are excluded from the accompanying notes to the condensed consolidated financial statements for all periods presented, unless otherwise noted. There were no operations that were reclassified to discontinued operations during the second quarter of fiscal 2014.

Note 12

Supplemental Cash Flow Information

Non-cash financing activities include the issuance of restricted stock to employees and directors of \$3.7 million and \$3.8 million for the year-to-date periods ended September 14, 2013 and September 15, 2012, respectively. Non-cash investing activities include capital expenditures recorded in current liabilities of \$1.9 million and \$1.3 million for the year-to-date periods ended September 14, 2013 and September 15, 2012, respectively. In the first quarter of fiscal 2013 the Company entered into capital lease agreements totaling \$2.8 million.

Note 13**Operating Segment Information**

The following tables set forth information about Spartan Stores by operating segment:

(In thousands)	Distribution	Retail	Total
12 Weeks Ended September 14, 2013			
Net sales	\$ 271,385	\$ 378,086	\$ 649,471
Inter-segment sales	160,998		160,998
Depreciation and amortization	2,107	7,466	9,573
Operating earnings	8,000	10,064	18,064
Capital expenditures	2,519	4,934	7,453
12 Weeks Ended September 15, 2012			
Net sales	\$ 259,242	\$ 362,317	\$ 621,559
Inter-segment sales	155,658		155,658
Depreciation and amortization	1,972	6,833	8,805
Operating earnings	10,849	8,099	18,948
Capital expenditures	2,052	12,410	14,462
24 Weeks Ended September 14, 2013			
Net sales	\$ 529,959	\$ 731,917	\$ 1,261,876
Inter-segment sales	311,758		311,758
Depreciation and amortization	4,201	14,863	19,064
Operating earnings	13,693	14,307	28,000
Capital expenditures	5,261	11,433	16,694
24 Weeks Ended September 15, 2012			
Net sales	\$ 517,590	\$ 707,881	\$ 1,225,471
Inter-segment sales	305,282		305,282
Depreciation and amortization	3,931	13,544	17,475
Operating earnings	18,671	11,990	30,661
Capital expenditures	3,482	17,524	21,006

	September 14, 2013	March 30, 2013
Total assets		
Distribution	\$ 270,938	\$ 254,326
Retail	521,251	529,840
Discontinued operations	5,500	5,501
Total	\$ 797,689	\$ 789,667

The following table presents sales by type of similar product and services:

(Dollars in thousands)	12 Weeks Ended				24 Weeks Ended			
	September 14, 2013		September 15, 2012		September 14, 2013		September 15, 2012	
Non-perishables ⁽¹⁾	\$ 318,204	49.0%	\$ 306,425	49.3%	\$ 614,645	48.7%	\$ 599,121	48.9%
Perishables ⁽²⁾	236,934	36.5	224,095	36.1	459,825	36.5	443,751	36.2
Pharmacy	49,674	7.6	47,866	7.7	97,540	7.7	97,627	8.0
Fuel	44,659	6.9	43,173	6.9	89,866	7.1	84,972	6.9
Consolidated net sales	\$ 649,471	100%	\$ 621,559	100%	\$ 1,261,876	100%	\$ 1,225,471	100%

(1) Consists primarily of general merchandise, grocery, beverages, snacks and frozen foods.

(2) Consists primarily of produce, dairy, meat, bakery, deli, floral and seafood.

Note 14

Company-Owned Life Insurance

Spartan Stores holds variable universal life insurance policies on certain key associates. The company-owned policies have annual premium payments of \$0.8 million. The net cash surrender value of approximately \$3.3 million and \$2.5 million at September 14, 2013 and September 15, 2012, respectively, is recorded on the balance sheet in Other Long-term Assets. These policies have an aggregate amount of life insurance coverage of approximately \$15 million.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Spartan Stores is a leading regional grocery distributor and grocery retailer, operating principally in Michigan, Indiana and Ohio.

We operate two reportable business segments: Distribution and Retail. Our Distribution segment provides a full line of grocery, general merchandise, health and beauty care, frozen and perishable items to approximately 380 independently owned grocery locations and our 101 corporate owned stores. Our Retail segment operates 101 retail supermarkets in Michigan including *D&W Fresh Markets*, *Family Fare Supermarkets*, *Glen's Markets*, *VG's Food and Pharmacy*, *Forest Hills Foods* and *Valu Land*. In addition, our retail segment operates 30 fuel centers/convenience stores, generally adjacent to our supermarket locations. Our retail supermarkets have a neighborhood market focus to distinguish them from supercenters.

Our sales and operating performance vary with seasonality. Our first and fourth quarters are typically our lowest sales quarters and therefore operating results are generally lower during these two quarters. Additionally, these two quarters can be affected by the timing of the Easter holiday, which results in a strong sales period. Many northern Michigan stores are dependent on tourism, which is affected by the economic environment and seasonal weather patterns, including, but not limited to, the amount and timing of snowfall during the winter months and the range of temperature during the summer months. Typically all quarters are 12 weeks, except for our third quarter, which is 16 weeks and includes the Thanksgiving and Christmas holidays.

Results of Operations

The following table sets forth items from our Condensed Consolidated Statements of Earnings as a percentage of net sales and the year-to-year percentage change in dollar amounts:

	Percentage of Net Sales				Percentage Change	
	12 Weeks Ended		24 Weeks Ended		12 Weeks Ended	24 Weeks Ended
	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012	Sept. 14, 2013	Sept. 15, 2012
(Unaudited)						
Net sales	100.0	100.0	100.0	100.0	4.5	3.0
Gross margin	21.0	21.0	20.7	20.6	4.7	3.8
Selling, general and administrative expenses	18.2	17.9*	18.4	18.1*	6.6	5.3
Restructuring and asset impairment		0.1	0.1	0.0	**	**
Operating earnings	2.8	3.0	2.2	2.5	(4.7)	(8.7)
Other income and expenses	0.4*	0.3*	0.3*	0.4	(8.2)	(19.1)
Earnings before income taxes and discontinued operations	2.4	2.7	1.9	2.1	(4.2)	(6.4)
Income taxes	0.8*	1.0	0.7	0.8*	(7.2)	(0.9)
Earnings from continuing operations	1.6	1.7	1.2	1.3	(2.3)	(9.3)
Loss from discontinued	(0.1)*	(0.0)	(0.0)	(0.0)	**	**

operations, net of taxes

Net earnings	1.5	1.7	1.2	1.3	(2.5)	(9.7)
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* Difference due to rounding

** Percentage change is not meaningful

Adjusted Operating Earnings

Adjusted operating earnings is a non-GAAP operating financial measure that the Company defines as operating earnings plus or minus adjustments for items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations.

The Company believes that adjusted operating earnings provide a meaningful representation of its operating performance for the Company. The Company considers adjusted operating earnings as an additional way to measure operating performance on an ongoing basis. Adjusted operating earnings is meant to reflect the ongoing operating performance of all of its retail stores and wholesale operations; consequently, it excludes the impact of items that could be considered non-operating or non-core in nature, and also excludes the contributions of activities classified as discontinued operations. Because adjusted operating earnings is a performance measure that management uses to allocate resources, assess performance against its peers and evaluate overall performance, the Company believes it provides useful information for investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with the Company request its operating financial results in adjusted operating earnings format.

Adjusted operating earnings is not a measure of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for operating earnings, cash flows from operating activities and other income or cash flow statement data. The Company's definition of adjusted operating earnings may not be identical to similarly titled measures reported by other companies.

Following is a reconciliation of Operating earnings to adjusted operating earnings for the twelve and twenty-four week periods ended September 14, 2013 and September 15, 2012.

(Unaudited)	12 weeks Ended Sept. 14, 2013	12 weeks Ended Sept. 15, 2012	24 weeks Ended Sept. 14, 2013	24 weeks Ended Sept. 15, 2012
(In thousands)				
Operating earnings	\$ 18,064	\$ 18,948	\$ 28,000	\$ 30,661
Add:				
Professional fees related to tax planning				108
Asset impairment and restructuring charges		356	987	356
Expenses related to merger transaction	3,638		5,474	
Adjusted operating earnings	\$ 21,702	\$ 19,304	\$ 34,461	\$ 31,125
Reconciliation of operating earnings to adjusted operating earnings by segment:				
Retail:				
Operating earnings	\$ 10,064	\$ 8,099	\$ 14,307	\$ 11,990
Add:				
Asset impairment and restructuring charges		356	987	356
Adjusted operating earnings	\$ 10,064	\$ 8,455	\$ 15,294	\$ 12,346

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Distribution:				
Operating earnings	\$ 8,000	\$ 10,849	\$ 13,693	\$ 18,671
Add:				
Professional fees related to tax planning				108
Expenses related to merger transaction	3,638		5,474	
Adjusted operating earnings	\$ 11,638	\$ 10,849	\$ 19,167	\$ 18,779

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Adjusted Earnings from Continuing Operations

Adjusted earnings from continuing operations is a non-GAAP operating financial measure that we define as earnings from continuing operations plus or minus adjustments for items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations.

We believe that adjusted earnings from continuing operations provide a meaningful representation of our operating performance for the Company. We consider adjusted earnings from continuing operations as an additional way to measure operating performance on an ongoing basis. Adjusted earnings from continuing operations is meant to reflect the ongoing operating performance of all of our retail stores and wholesale operations; consequently, it excludes the impact of items that could be considered non-operating or non-core in nature, and also excludes the contributions of activities classified as discontinued operations. We believe that adjusted earnings from continuing operations provides useful information for our investors because it is a performance measure that management uses to allocate resources, assess performance against its peers and evaluate overall performance. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with us request our operating financial results in adjusted earnings from continuing operations format.

Adjusted earnings from continuing operations is not a measure of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for net earnings, cash flows from operating activities and other income or cash flow statement data. Our definition of adjusted earnings from continuing operations may not be identical to similarly titled measures reported by other companies.

Following is a reconciliation of Earnings from continuing operations to adjusted earnings from continuing operations for the twelve and twenty-four week periods ended September 14, 2013 and September 15, 2012.

	12 Weeks Ended September 14, 2013		12 Weeks Ended September 15, 2012	
	Earnings from continuing operations	Earnings per diluted share	Earnings from continuing operations	Earnings per diluted share
Earnings from continuing operations	\$ 10,115	\$ 0.46	\$ 10,355	\$ 0.47
Adjustments, net of taxes:				
Asset impairment and restructuring charges			223	0.01
Expenses related to the merger transaction	2,264	0.10		
Gain on sale of assets			(418)	(0.01)*
Favorable settlement of unrecognized tax liability	(238)	(0.01)		
Adjusted earnings from continuing operations	\$ 12,141	\$ 0.55	\$ 10,160	\$ 0.47

* includes rounding

	24 Weeks Ended September 14, 2013		24 Weeks Ended September 15, 2012	
	Earnings from	Earnings per	Earnings from	Earnings per diluted

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	continuing operations	diluted share	continuing operations	share
Earnings from continuing operations	\$ 14,899	\$ 0.68	\$ 16,431	\$ 0.75
Adjustments, net of taxes:				
Asset impairment and restructuring charges	614	0.03	223	0.01
Expenses related to the merger transaction	3,407	0.15		
Gain on sale of assets			(418)	(0.02)
Favorable settlement of unrecognized tax liability	(238)	(0.01)		
Impact of state tax law changes*			(642)	(0.03)
Adjusted earnings from continuing operations	\$ 18,682	\$ 0.85	\$ 15,594	\$ 0.71

* \$0.7 million benefit included in income tax expense and \$0.1 million expense included in selling, general and administrative expenses.

Adjusted EBITDA

Consolidated Adjusted EBITDA is a non-GAAP operating financial measure that we define as net earnings from continuing operations plus depreciation and amortization, and other non-cash items including imputed interest, deferred (stock) compensation, the LIFO provision, as well as adjustments for items that do not reflect our ongoing operating activities and costs associated with the closing of operational locations, interest expense and the provision for income taxes to the extent deducted in the computation of Net Earnings.

We believe that Adjusted EBITDA provides a meaningful representation of our operating performance for Spartan Stores as a whole and for our operating segments. We consider Adjusted EBITDA as an additional way to measure operating performance on an ongoing basis. Adjusted EBITDA is meant to reflect the ongoing operating performance of all of our retail stores and wholesale operations; consequently, it excludes the impact of items that could be considered non-operating or non-core in nature, and also excludes the contributions of activities classified as discontinued operations. Because Adjusted EBITDA is a performance measure that management uses to allocate resources, assess performance against its peers, and evaluate overall performance, we believe it provides useful information for our investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with us request our operating financial results in Adjusted EBITDA format.

Adjusted EBITDA is not a measure of performance under accounting principles generally accepted in the United States of America, and should not be considered as a substitute for net earnings, cash flows from operating activities and other income or cash flow statement data. Our definition of Adjusted EBITDA may not be identical to similarly titled measures reported by other companies.

Following is a reconciliation of net earnings to Adjusted EBITDA for the twelve and twenty-four week periods ended September 14, 2013 and September 15, 2012.

(In thousands)	Twelve Weeks Ended		Twenty-four Weeks Ended	
	September 14, 2013	September 15, 2012	September 14, 2013	September 15, 2012
Net earnings	\$ 10,050	\$ 10,305	\$ 14,733	\$ 16,308
Add:				
Discontinued operations	65	50	166	123
Income taxes	5,755	6,203	8,651	8,732
Interest expense	2,197	3,071	4,462	6,227
Non-operating expense	(3)	(681)	(12)	(729)
Operating earnings	18,064	18,948	28,000	30,661
Add:				
Depreciation and amortization	9,573	8,805	19,064	17,475
LIFO expense	189	590	953	1,380
Restructuring and asset impairment charges		356	987	356
Expenses related to merger transaction	3,638		5,474	
Non-cash stock compensation and other charges	449	292	1,252	1,761
Adjusted EBITDA	\$ 31,913	\$ 28,991	\$ 55,730	\$ 51,633

Reconciliation of operating earnings to adjusted EBITDA by segment:

Retail:

Operating earnings	\$ 10,064	\$ 8,099	\$ 14,307	\$ 11,990
Add:				
Depreciation and amortization	7,466	6,833	14,863	13,544
LIFO expense	225	424	650	848
Restructuring and asset impairment charges		356	987	356
Non-cash stock compensation and other	241	687	626	1,457
Adjusted EBITDA	\$ 17,996	\$ 16,399	\$ 31,433	\$ 28,195

Distribution:

Operating earnings	\$ 8,000	\$ 10,849	\$ 13,693	\$ 18,671
Add:				
Depreciation and amortization	2,107	1,972	4,201	3,931
LIFO (income) expense	(36)	166	303	532
Expenses related to merger transaction	3,638		5,474	
Non-cash stock compensation and other	208	(395)	626	304
Adjusted EBITDA	\$ 13,917	\$ 12,592	\$ 24,297	\$ 23,438

Net Sales Net sales for the quarter ended September 14, 2013 (second quarter) increased \$27.9 million, or 4.5%, from \$621.6 million in the quarter ended September 15, 2012 (prior year second quarter) to \$649.5 million. Net sales for the year-to-date period ended September 14, 2013 (year-to-date) increased \$36.4 million, or 3.0%, from \$1,225.5 million in the prior year-to-date period ended September 15, 2012 (prior year-to-date) to \$1,261.9 million.

Net sales for the second quarter in our Retail segment increased \$15.8 million, or 4.4%, from \$362.3 million in the prior year second quarter to \$378.1 million. Net sales for the year-to-date period increased \$24.0 million, or 3.4%, from \$707.9 million in the prior year-to-date period to \$731.9 million. The second quarter increase was primarily due to the impact from an acquisition of a single store and adjacent fuel center late in the third quarter of fiscal 2013, new *Valu Land* store openings and an increase in comparable store sales of 0.2%, excluding fuel, partially offset by lower retail fuel prices. The year-to-date increase was primarily due to the impact from the aforementioned acquisition and new *Valu Land* store openings, partially offset by a decrease in comparable store sales, excluding fuel, of 1.3%. Comparable store sales were negatively impacted in the first quarter of fiscal 2014 due to the calendar shift of the Easter holiday selling week out of the first quarter of fiscal 2014 and into the fourth quarter of fiscal 2013, the cycling of the launch of the price-freeze campaign in the prior year first quarter, unseasonably warm weather in the prior fiscal year and the continued conversion from branded to generic drugs in our pharmacy operations. We define a retail store as comparable when it is in operation for 14 periods (a period is four weeks), and we include remodeled, expanded and relocated stores in comparable stores.

Net sales for the second quarter in our Distribution segment increased \$12.2 million, or 4.7%, from \$259.2 million in the prior year second quarter to \$271.4 million. Net sales for the current year-to-date period increased \$12.4 million, or 2.4%, from \$517.6 million in the prior year-to-date period to \$530.0 million. The second quarter increase was primarily due to net new business of \$7.0 million and higher sales to existing independent customers, partially offset by the elimination of sales to a store acquired from a former customer. The year-to-date increase was primarily due to net new business of \$12.9 million and higher sales to existing independent customers, partially offset by the elimination of sales to a store acquired from a former customer.

Gross Profit Gross profit represents sales less cost of sales, which include purchase costs and vendor allowances. Vendor allowances that relate to our buying and merchandising activities consist primarily of promotional allowances, which are generally allowances on purchased quantities and, to a lesser extent, slotting allowances, which are billed to vendors for our merchandising costs, such as setting up warehouse infrastructure. Vendor allowances associated with product cost are recognized as a reduction in cost of sales when the product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms.

Gross profit for the second quarter increased \$6.1 million, or 4.7%, from \$130.2 million in the prior year second quarter to \$136.3 million. As a percent of net sales, gross profit was 21.0% for the second quarter and the prior year second quarter. Gross profit for the year-to-date period increased \$9.7 million, or 3.8%, from \$251.9 million in the prior year-to-date period to \$261.6 million. As a percent of net sales, gross profit for the year-to-date period increased to 20.7% from 20.6%. The year-to-date increased gross profit rate reflects slightly improved rates in the retail and distribution segments.

Selling, General and Administrative Expenses Selling, general and administrative (SG&A) expenses consist primarily of salaries and wages, employee benefits, warehousing costs, store occupancy costs, shipping and handling, utilities, equipment rental, depreciation and other administrative costs.

SG&A expenses for the second quarter increased \$7.3 million, or 6.6%, from \$110.9 million in the prior year second quarter to \$118.2 million. As a percent of net sales, SG&A expenses were 18.2% for the second quarter compared to 17.8% in the prior year second quarter. SG&A expenses for the year-to-date period increased \$11.7 million, or 5.3%, from \$220.9 million in the prior year-to-date period to \$232.6 million. As a percent of net sales, SG&A expenses were 18.4% for the current year-to-date period compared to 18.0% in the prior year-to-date period. The dollar increase in the second quarter was primarily due to \$3.6 million in expenses related to the previously disclosed merger transaction, increased incentive compensation of \$1.4 million, higher retail store labor of \$1.2 million due to higher sales, increased depreciation and amortization expense of \$0.8 million due to our capital investment plan and health care costs of \$0.5 million. The increase as a percent of sales was primarily due to the merger related expenses and increased incentive compensation expense, partially offset by improved fixed cost leverage. Excluding the \$3.6 million in merger related expenses, SG&A expenses for the second quarter increased \$3.7 million, or 3.3%, from \$110.9 million in the prior year second quarter to \$114.6 million and as a percent of sales, SG&A expenses were 17.6% for the second quarter compared to 17.8% in the prior year second quarter. The dollar increase in the year-to-date period SG&A expenses was primarily due to \$5.5 million in expenses related to the previously disclosed merger transaction, increased incentive compensation of \$2.0 million, higher retail store labor of \$1.6 million due to higher sales, increased depreciation and amortization expense of \$1.6 million due to our capital investment plan and health care inflation of \$0.9 million. The increase as a percent of sales was primarily due to the merger related expenses. Excluding the \$5.5 million in merger related expenses SG&A expenses for the year-to-date period increased \$6.2 million, or 2.8%, from \$220.9 million in the prior year-to-date period to \$227.1 million and as a percent of sales, SG&A expenses were 18.0% in the current year-to-date period and the prior year-to-date period.

Restructuring and Asset Impairment The current year-to-date restructuring and asset impairment consisted primarily of an asset impairment charge for an underperforming supermarket and related fuel center. The asset impairment charge was a result of new competition against this store and fuel center and its impact on forecasted financial performance. The prior year second quarter and prior year-to-date restructuring and asset impairment consisted of an asset impairment charge for a supermarket due to the local economic and competitive environment of this store and the impact on its forecasted financial performance.

Interest Expense Interest expense decreased \$0.9 million, or 28.5%, from \$3.1 million in the prior year second quarter to \$2.2 million. For the year-to-date period, interest expense decreased \$1.7 million, or 28.3%, from \$6.2 million to \$4.5 million. The decrease in interest expense was due primarily to the repurchase of the Convertible Senior Notes in fiscal 2013 and lower average borrowings in the current fiscal year.

Other, net Other, net includes a gain on the sale of vacant land of \$0.7 million in the prior year second quarter.

Income Taxes The effective income tax rate was 36.3% and 37.5% for the second quarter of fiscal 2014 and 2013, respectively. For the year-to-date period and prior year-to-date period the effective income tax rate was 36.7% and 34.7%, respectively. The difference from the second quarter of fiscal 2014 and 2013 and the fiscal 2014 year-to-date Federal statutory rate was due primarily to state income taxes, partially offset by tax credits. The difference from the fiscal 2013 year-to-date Federal statutory rate was primarily the result of changes to the state of Michigan tax laws. Income tax expense in the first quarter of fiscal 2013 includes a \$0.7 million after-tax benefit due to these changes. Excluding this item the effective tax rate was 37.6%. The fiscal 2014 effective income tax rate could be adversely affected pending the final determination of the tax deductibility of merger related expenses.

Discontinued Operations

Certain of our retail and grocery distribution operations have been recorded as discontinued operations. Results of the discontinued operations are excluded from the accompanying notes to the condensed consolidated financial statements for all periods presented, unless otherwise noted.

Liquidity and Capital Resources

The following table summarizes our consolidated statements of cash flows for the twenty-four week periods ended:

(In thousands)	September 14, 2013	September 15, 2012
Net cash provided by operating activities	\$ 26,941	\$ 895
Net cash used in investing activities	(17,409)	(18,354)
Net cash used in financing activities	(9,719)	(1,561)
Net cash (used in) provided by discontinued operations	(365)	35
Net decrease in cash and cash equivalents	(552)	(18,985)
Cash and cash equivalents at beginning of period	6,097	26,476
Cash and cash equivalents at end of period	\$ 5,545	\$ 7,491

Net cash provided by operating activities increased from the prior year-to-date period primarily due to the timing of seasonal working capital requirements, lower income tax payments and prior year first quarter payments related to new customer supply agreements.

Net cash used in investing activities decreased during the current year-to-date period primarily due to capital expenditures which decreased \$4.3 million to \$16.7 million, partially offset by proceeds from the sale of assets in the prior year second quarter. Retail and Distribution segments utilized 68.5% and 31.5% of current year-to-date capital expenditures, respectively. The decrease in capital expenditures in fiscal 2014 was primarily related to fewer new stores and major remodels. Expenditures during the current fiscal year were primarily related to one major store remodel, one new *Valu Land* store, the implementation of automated guided vehicles in our grocery distribution warehouse and several minor store remodels. We expect capital expenditures to range from \$39.0 million to \$42.0 million for fiscal 2014.

Net cash used in financing activities during the current year-to-date period resulted primarily from net payments on the revolving credit facility of \$6.0 million, dividends paid of \$2.0 million and repayment of long-term borrowings of

\$2.0 million. In the prior year-to-date period, net cash used in financing activities resulted primarily from share repurchases of \$11.4 million, repayment of long-term borrowings of \$1.8 million, dividends paid of \$1.7 million and financing fees paid of \$1.3 million, partially offset by net proceeds from the revolving credit facility of \$14.2 million. The increase in dividends paid was due to a 12.5% increase in dividends from \$0.08 per share to \$0.09 per share that was approved by the Board of Directors and announced on May 17, 2013. It is expected that following the Nash-Finch merger discussed above, Spartan Stores will initially pay quarterly dividends of \$0.12 per share. Although we expect to continue to pay a quarterly cash dividend, adoption of a dividend policy does not commit the Board of Directors to declare future dividends. Each future dividend will be considered and declared by

the Board of Directors at its discretion. Whether the Board of Directors continues to declare dividends and repurchase shares depends on a number of factors, including our future financial condition, anticipated profitability and cash flows and compliance with the terms of our credit facilities. Our current maturities of long-term debt and capital lease obligations at September 14, 2013 are \$4.0 million. Our ability to borrow additional funds is governed by the terms of our credit facilities.

Net cash used in discontinued operations includes the net cash flows of our discontinued operations and consists primarily of the payment of closed store lease costs and other liabilities partially offset by sublease income.

Our principal sources of liquidity are cash flows generated from operations and our senior secured revolving credit facility which has maximum available credit of \$200.0 million. As of September 14, 2013, our senior secured revolving credit facility had outstanding borrowings of \$41.7 million, maximum availability of \$157.8 million and available borrowings of \$137.8 million which exceeds the minimum excess availability levels, as defined in the credit agreement. The revolving credit facility matures December 2017, and is secured by substantially all of our assets. We believe that cash generated from operating activities and available borrowings under the credit facility will be sufficient to meet anticipated requirements for working capital, capital expenditures, dividend payments, and senior note debt redemption and debt service obligations for the foreseeable future. However, there can be no assurance that our business will continue to generate cash flow at or above current levels or that we will maintain our ability to borrow under our credit facility. Additionally, we anticipate refinancing our revolving credit agreement under a new facility when the proposed merger described in Note 3 is consummated.

Our current ratio increased to 1.10:1.00 at September 14, 2013 from 1.07:1.00 at March 30, 2013 and our investment in working capital increased to \$20.0 million at September 14, 2013 from \$13.2 million at March 30, 2013 principally due to seasonal inventory needs. Our net long-term debt to total capital ratio was 0.28:1.00 at September 14, 2013 versus 0.30:1.00 at March 30, 2013.

Total net long-term debt is a non-GAAP financial measure that is defined as long-term debt and capital lease obligations plus current maturities of long-term debt and capital lease obligations less cash and cash equivalents. The Company believes investors find the information useful because it reflects the amount of long term debt obligations that are not covered by available cash and temporary investments.

Following is a reconciliation of long-term debt and capital lease obligations to total net long-term debt and capital lease obligations as of September 14, 2013 and March 30, 2013.

(In thousands)	September 14, 2013	March 30, 2013
Current maturities of long-term debt and capital lease obligations	\$ 3,983	\$ 4,067
Long-term debt and capital lease obligations	137,981	145,876
Total debt	141,964	149,943
Cash and cash equivalents	(5,545)	(6,097)
Total net long-term debt	\$ 136,419	\$ 143,846

For information on contractual obligations, see our Annual Report on Form 10-K for the fiscal year ended March 30, 2013. At September 14, 2013, there have been no material changes to our significant contractual obligations outside the ordinary course of business.

Ratio of Earnings to Fixed Charges

For purposes of calculating the ratio of earnings to fixed charges under the terms of the Senior Notes, earnings consist of net earnings, as adjusted under the terms of the Senior Notes indenture, plus income tax expense, fixed charges and non-cash charges, less cash payments relating to non-cash charges added back to net earnings in prior periods. Fixed charges consist of interest cost, including capitalized interest, and amortization of debt issue costs. Our ratio of earnings to fixed charges was 9.2:1.00 for the four quarters ended September 14, 2013.

Off-Balance Sheet Arrangements

We had letters of credit totaling \$0.6 million outstanding and unused at September 14, 2013. The letters of credit are maintained primarily to support payment or deposit obligations. We pay a commission of approximately 2% on the face amount of the letters of credit.

Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, assets held for sale, long-lived assets, income taxes, self-insurance reserves, restructuring and asset impairment costs, retirement benefits, stock-based compensation and contingencies and litigation. We base our estimates on historical experience and on various other assumptions and factors that we believe to be reasonable under the circumstances. Based on our ongoing review, we make adjustments we consider appropriate under the facts and circumstances. We have discussed the development, selection and disclosure of these estimates with the Audit Committee. The accompanying condensed consolidated financial statements are prepared using the same critical accounting policies discussed in our Annual Report on Form 10-K for the fiscal year ended March 30, 2013.

Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. ASU No. 2012-02 permits an entity to first assess qualitative factors to determine whether certain events and circumstances exist that indicate it is more likely than not that an indefinite-lived intangible asset is impaired. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If as a result of the qualitative assessment it is determined that it is not more likely than not that the indefinite-lived intangible asset is impaired, then Spartan Stores is not required to take further action and calculate the fair value of a reporting unit. ASU No. 2012-02 was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. This standard did not have an impact on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income . ASU No. 2013-02 requires companies to provide additional information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, companies are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective lines of net income. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. This ASU does not change the requirements for reporting net income or other comprehensive income. Because the standard only affects the presentation of comprehensive income and does not affect what is included in comprehensive income, this standard did not have a material effect on our consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in market risk of Spartan Stores from the information provided under Part II, Item 7A, Quantitative and Qualitative Disclosure About Market Risk , of the Company s Annual Report on Form 10-K for the fiscal year ended March 30, 2013.

ITEM 4. Controls and Procedures

An evaluation of the effectiveness of the design and operation of Spartan Stores' disclosure controls and procedures (as currently defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) was performed as of September 14, 2013 (the Evaluation Date). This evaluation was performed under the supervision and with the participation of Spartan Stores' management, including its Chief Executive Officer (CEO) and Chief Financial

Officer (CFO). Spartan Stores management, including the CEO and CFO, concluded that Spartan Stores disclosure controls and procedures were effective as of the Evaluation Date to ensure that material information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934 is accumulated and communicated to management, including our principal executive and principal financial officers as appropriate to allow for timely decisions regarding required disclosure. During the second quarter there was no change in Spartan Stores internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Spartan Stores internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

On or about July 24, 2013, a putative class action complaint was filed in the District Court for the Fourth Judicial District, State of Minnesota, County of Hennepin, by a stockholder of Nash-Finch in connection with the pending transaction. The action is styled Greenblatt v. Nash-Finch Co. et al., Case No. 27-cv-13-13710. That complaint was amended on August 28, 2013 after Spartan Stores' registration statement was filed with the SEC. On September 9, 2013, the defendants filed motions to dismiss the complaint, which are currently pending before the court. On or about September 19, 2013, a second putative class action complaint was filed in the United States District Court for the District of Minnesota, by a stockholder of Nash-Finch. The action is styled Benson v. Covington et al., Case No. 0:13-cv-02574. The lawsuits allege that the directors of Nash-Finch breached their fiduciary duties by, among other things, approving a merger that provides for inadequate consideration under circumstances involving certain alleged conflicts of interest; that the merger agreement includes allegedly preclusive deal protection provisions; and that Nash-Finch and Spartan Stores allegedly aided and abetted the directors in breaching their duties to Nash-Finch's stockholders. Both complaints also allege that the preliminary joint proxy statement/prospectus was false and misleading due to the omission of a variety of allegedly material information. The complaint in the Benson action also asserts additional claims individually on behalf of the plaintiff under the federal securities laws. The actions seek, on behalf of their putative classes, various remedies, including enjoining the merger from being consummated in accordance with its agreed-upon terms, damages, and costs and disbursements relating to the lawsuit.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 17, 2011, the Board of Directors authorized a five-year share repurchase program for up to \$50 million of the Spartan Stores' common stock. Spartan Stores did not repurchase shares of common stock under this program during the quarter ended September 14, 2013. The repurchase program has been temporarily suspended due to the pending merger with Nash-Finch Company. The approximate dollar value of shares that may yet be purchased under the repurchase plan was \$26.2 million as of September 14, 2013.

ITEM 6. Exhibits

The following documents are filed as exhibits to this Quarterly Report on Form 10-Q:

Exhibit Number	Document
2.1	Agreement and Plan of Merger dated July 21, 2013. Previously filed as an exhibit to the Company's Current Report on Form 8-K on July 22, 2013. Here incorporated by reference.
3.1	Restated Articles of Incorporation of Spartan Stores, Inc. Previously filed as an exhibit to Spartan Stores' Quarterly Report on Form 10-Q for the quarter ended January 1, 2011. Here incorporated by reference.
3.2	Bylaws of Spartan Stores, Inc., as amended. Previously filed as an exhibit to Spartan Stores' Quarterly Report on Form 10-Q for the quarter ended September 10, 2011. Here incorporated by reference.
4.1	Indenture dated December 6, 2012 by and among Spartan Stores, Inc., The Bank of New York Mellon Trust Company, N.A., as Trustee, and the Company's subsidiaries as Guarantors. Previously filed as an exhibit to the Company's Current Report on Form 8-K on December 6, 2012. Here incorporated by reference.
4.2	Form of 6.625% Senior Notes Due 2016. Previously filed as an exhibit to the Company's Current Report on Form 8-K on December 6, 2012. Here incorporated by reference.
10.4	Commitment Letter dated July 21, 2013 issued by Wells Fargo Bank, National Association and Bank of America N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Previously filed as an exhibit to the Company's Current Report on Form 8-K on July 22, 2013. Here incorporated by reference.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPARTAN STORES, INC.

(Registrant)

Date: October 24, 2013

By /s/ David M. Staples
David M. Staples
Executive Vice President and Chief Financial
Officer (Principal Financial and Accounting Officer
and duly authorized to sign for Registrant)

EXHIBIT INDEX

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80

14,573

162

(8,535

)

6,118

Tax benefit of stock-based awards, including excess tax benefits of \$11.0 million

8,229

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8,229

Stock issued for vested restricted stock, net of shares withheld for employee taxes

83

8

(3,226

)

(41

)

1,541

(1,677

)

Stock-based compensation

17,471

17,471

Balance, June 30, 2013

108,477

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\$	10,848
\$	273,287
\$	3,996,530
\$	105,457
	2,022
\$	(91,098)
)	
\$	4,295,024

The accompanying notes are an integral part of these statements.

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HELMERICH & PAYNE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Unless the context otherwise requires, the use of the terms the Company, we, us and our in these Notes to Consolidated Condensed Financial Statements refers to Helmerich & Payne, Inc. and its consolidated subsidiaries.

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the Commission) pertaining to interim financial information. Accordingly, these interim financial statements do not include all information or footnote disclosures required by GAAP for complete financial statements and, therefore, should be read in conjunction with the Consolidated Financial Statements and notes thereto in our 2012 Annual Report on Form 10-K and other current filings with the Commission. In the opinion of management, all adjustments, consisting of those of a normal recurring nature, necessary to present fairly the results of the periods presented have been included. The results of operations for the interim periods presented may not necessarily be indicative of the results to be expected for the full year.

As more fully described in our 2012 Annual Report on Form 10-K, our contract drilling revenues are comprised of daywork drilling contracts for which the related revenues and expenses are recognized as services are performed. For contracts that are terminated by customers prior to the expirations of their fixed terms, contractual provisions customarily require early termination amounts to be paid to us. Revenues from early terminated contracts are recognized when all contractual requirements have been met.

2. Discontinued Operations

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of 11 rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and met the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, operations from the Venezuelan subsidiary, an operating segment previously within the International Land segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements.

Current assets of discontinued operations consist of restricted cash to meet remaining in-country current obligations. Current and noncurrent liabilities of discontinued operations consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

3. Earnings per Share

Accounting Standards Codification (ASC) 260, *Earnings per Share*, requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. We have granted and expect to continue to grant to employees restricted stock grants that contain non-forfeitable rights to dividends. Such grants are considered participating securities under ASC 260. As such, we are required to include these grants in the calculation of our basic earnings per share and calculate basic earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings.

Basic earnings per share is computed utilizing the two-class method and is calculated based on the weighted-average number of common shares outstanding during the periods presented.

Diluted earnings per share is computed using the weighted-average number of common and common equivalent shares outstanding during the periods utilizing the two-class method for stock options and nonvested restricted stock.

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The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
(in thousands, except per share amounts)				
Numerator:				
Income from continuing operations	\$ 250,978	\$ 149,943	\$ 561,656	\$ 424,003
Income (loss) from discontinued operations	15,181	(18)	15,186	(73)
Net income	266,159	149,925	576,842	423,930
Adjustment for basic earnings per share:				
Earnings allocated to unvested shareholders	(1,441)	(606)	(2,972)	(1,612)
Numerator for basic earnings per share:				
From continuing operations	249,537	149,337	558,684	422,391
From discontinued operations	15,181	(18)	15,186	(73)
	264,718	149,319	573,870	422,318
Adjustment for diluted earnings per share:				
Effect of reallocating undistributed earnings of unvested shareholders	15	7	35	22
Numerator for diluted earnings per share:				
From continuing operations	249,552	149,344	558,719	422,413
From discontinued operations	15,181	(18)	15,186	(73)
	\$ 264,733	\$ 149,326	\$ 573,905	\$ 422,340
Denominator:				
Denominator for basic earnings per share weighted-average shares	106,430	107,016	106,206	107,196
Effect of dilutive shares from stock options and restricted stock	1,396	1,409	1,511	1,602
Denominator for diluted earnings per share adjusted weighted-average shares	107,826	108,425	107,717	108,798
Basic earnings per common share:				
Income from continuing operations	\$ 2.35	\$ 1.40	\$ 5.26	\$ 3.94
Income from discontinued operations	0.14		0.14	
Net income	\$ 2.49	\$ 1.40	\$ 5.40	\$ 3.94
Diluted earnings per common share:				
Income from continuing operations	\$ 2.32	\$ 1.38	\$ 5.19	\$ 3.88
Income from discontinued operations	0.14		0.14	
Net income	\$ 2.46	\$ 1.38	\$ 5.33	\$ 3.88

The following shares attributable to outstanding equity awards were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
(in thousands, except per share amounts)				
Shares excluded from calculation of diluted earnings per share	750	755	801	446

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Weighted-average price per share	\$	57.29	\$	54.86	\$	57.22	\$	59.68
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4. Financial Instruments and Fair Value Measurement

The estimated fair value of our available-for-sale securities, reflected on our Consolidated Condensed Balance Sheets as Investments, is based on market quotes. The following is a summary of available-for-sale securities, which excludes assets held in a Non-qualified Supplemental Savings Plan:

	Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
Equity securities June 30, 2013	\$ 68,434	\$ 209,097	\$	\$ 277,531
Equity securities September 30, 2012	\$ 129,183	\$ 304,396	\$	\$ 433,579

On an ongoing basis, we evaluate the marketable equity securities to determine if a decline in fair value below cost is other-than-temporary. If a decline in fair value below cost is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis established. We review several factors to determine whether a loss is other-than-temporary. These factors include, but are not limited to, (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. The cost of securities used in determining realized gains and losses is based on the average cost basis of the security sold.

During the third quarter ended June 30, 2013, we sold shares in an available-for-sale security realizing a gain of \$153.4 million that is included in gain from sale of investment securities in the Consolidated Condensed Statements of Income. Net income includes after-tax gains from the sale of available-for-sale securities as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
After-tax gain	\$ 92,449	\$	\$ 92,449	\$
Earnings per diluted share	\$ 0.86	\$	\$ 0.86	\$

During the first quarter ended December 31, 2012, we sold our shares in three limited partnerships that were primarily invested in international equities, realizing a gain of \$8.8 million that is included in gain from sale of investment securities in the Consolidated Condensed Statements of Income.

Assets held in the Non-qualified Supplemental Savings Plan are carried at fair market value which totaled \$10.1 million at June 30, 2013 and \$8.2 million at September 30, 2012.

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The majority of cash equivalents are invested in taxable and non-taxable money-market mutual funds. The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of those investments.

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use the fair value hierarchy established in ASC 820-10 to measure fair value to prioritize the inputs:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

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At June 30, 2013, our financial instruments utilizing Level 1 inputs include cash equivalents, equity securities with active markets and money market funds we have elected to classify as restricted assets that are included in other current assets and other assets. Also included is cash denominated in a foreign currency that we have elected to classify as restricted, which is included in current assets of discontinued operations and limited to remaining liabilities of discontinued operations. For these items, quoted current market prices are readily available.

At June 30, 2013, financial instruments utilizing level 2 inputs include a bank certificate of deposit included in other current assets.

Currently, we do not have any financial instruments utilizing Level 3 inputs.

The following table summarizes our assets measured at fair value on a recurring basis presented in our Consolidated Condensed Balance Sheet as of June 30, 2013:

	Total Measure at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents	\$ 480,480	\$ 480,480	\$	\$
Equity securities	277,531	277,531		
Other current assets	24,414	24,164	250	
Other assets	2,000	2,000		
Total assets measured at fair value	\$ 784,425	\$ 784,175	\$ 250	\$

The following information presents the supplemental fair value information about fixed-rate debt at June 30, 2013 and September 30, 2012:

	June 30, 2013	September 30, 2012
	(in thousands)	
Carrying value of fixed-rate debt	\$ 235.0	\$ 235.0
Fair value of fixed-rate debt	\$ 243.2	\$ 252.7

The fair value for fixed-rate debt was estimated using cash flows discounted at rates reflecting current interest rates at similar maturities plus a credit spread which was estimated using market information on debt instruments with a similar credit profile to us. The debt was valued using a Level 2 input.

5. Cash Dividends

The \$0.15 cash dividend declared March 6, 2013, was paid May 31, 2013. On June 5, 2013, a cash dividend of \$0.50 per share was declared for shareholders of record on August 15, 2013, payable August 30, 2013. The dividend payable is included in accounts payable in the Consolidated Condensed Balance Sheet.

6. Stock-Based Compensation

On March 2, 2011, the 2010 Long-Term Incentive Plan (the 2010 Plan) was approved by our stockholders. The 2010 Plan, among other things, authorizes the Board of Directors to grant non-qualified stock options, restricted stock awards and stock appreciation rights to selected employees and to non-employee Directors. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire 10 years after the grant date. There were 364,624 non-qualified stock options and 307,100 shares of restricted stock awards granted in the nine months ended June 30, 2013. Awards outstanding in the 2005 Long-Term Incentive Plan (the 2005 Plan) and one prior equity plan remain subject to the terms and conditions of those plans.

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A summary of compensation cost for stock-based payment arrangements recognized in general and administrative expense is as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Compensation expense				
Stock options	\$ 2,672	\$ 2,314	\$ 8,804	\$ 7,345
Restricted stock	3,073	2,228	8,667	5,955
	\$ 5,745	\$ 4,542	\$ 17,471	\$ 13,300

STOCK OPTIONS

The following summarizes the weighted-average assumptions utilized in determining the fair value of options granted during the nine months ended June 30, 2013 and 2012:

	2013	2012
Risk-free interest rate	0.7%	1.0%
Expected stock volatility	53.87%	53.3%
Dividend yield	1.1%	0.4%
Expected term (in years)	5.5	5.5

Risk-Free Interest Rate. The risk-free interest rate is based on U.S. Treasury securities for the expected term of the option.

Expected Volatility Rate. Expected volatility is based on the daily closing price of our stock based upon historical experience over a period which approximates the expected term of the option.

Dividend Yield. The expected dividend yield is based on our current dividend yield.

Expected Term. The expected term of the options granted represents the period of time that they are expected to be outstanding. We estimate the expected term of options granted based on historical experience with grants and exercises.

A summary of stock option activity under the Plan for the three and nine months ended June 30, 2013 is presented in the following tables:

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Options	Shares (in thousands)	Three Months Ended June 30, 2013		Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
		Weighted- Average Exercise Price			
Outstanding at April 1, 2013	4,306	\$	33.61		
Granted					
Exercised	(50)		23.84		
Forfeited/Expired	(3)		51.45		
Outstanding at June 30, 2013	4,253	\$	33.72	5.0	\$ 122.2
Vested and expected to vest at June 30, 2013	4,236	\$	33.66	5.0	\$ 121.9
Exercisable at June 30, 2013	3,325	\$	28.40	4.1	\$ 113.2

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Options	Nine Months Ended June 30, 2013	
	Shares (in thousands)	Weighted- Average Exercise Price
Outstanding at October 1, 2012	4,690	\$ 29.56
Granted	365	54.18
Exercised	(795)	18.43
Forfeited/Expired	(7)	52.32
Outstanding at June 30, 2013	4,253	\$ 33.72

The weighted-average fair value of options granted in the first quarter of fiscal 2013 was \$23.80. No options were granted in the second and third quarters of fiscal 2013.

The total intrinsic value of options exercised during the three and nine months ended June 30, 2013 was \$2.0 million and \$29.6 million, respectively.

As of June 30, 2013 the unrecognized compensation cost related to stock options was \$12.0 million which is expected to be recognized over a weighted-average period of 2.6 years.

RESTRICTED STOCK

Restricted stock awards consist of our common stock and are time-vested over three to six years. We recognize compensation expense on a straight-line basis over the vesting period. The fair value of restricted stock awards under the 2010 Plan is determined based on the closing price of our shares on the grant date. As of June 30, 2013, there was \$20.7 million of total unrecognized compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 3.0 years.

A summary of the status of our restricted stock awards as of June 30, 2013 and changes in restricted stock outstanding during the nine months then ended is presented below:

Restricted Stock Awards	Nine Months Ended June 30, 2013	
	Shares (in thousands)	Weighted- Average Grant-Date Fair Value
Unvested at October 1, 2012	430	\$ 52.52
Granted	307	54.18
Vested (1)	(155)	44.63

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Forfeited	(4)		54.87
Unvested at June 30, 2013	578	\$	55.17

(1) The number of restricted stock awards vested includes shares that we withheld on behalf of our employees to satisfy the statutory tax withholding requirements.

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7. Debt

At June 30, 2013 and September 30, 2012, we had the following unsecured long-term debt outstanding:

	June 30, 2013	September 30, 2012
	(in thousands)	
Unsecured intermediate debt issued August 15, 2002:		
Series D, due August 15, 2014, 6.56%	\$ 75,000	\$ 75,000
Unsecured senior notes issued July 21, 2009:		
Due July 21, 2013, 6.10%	40,000	40,000
Due July 21, 2014, 6.10%	40,000	40,000
Due July 21, 2015, 6.10%	40,000	40,000
Due July 21, 2016, 6.10%	40,000	40,000
	\$ 235,000	\$ 235,000
Less long-term debt due within one year	40,000	40,000
Long-term debt	\$ 195,000	\$ 195,000

The intermediate unsecured debt outstanding at June 30, 2013 matures August 15, 2014 and carries an interest rate of 6.56 percent, which is paid semi-annually. The terms require that we maintain a ratio of debt to total capitalization of less than 55 percent. The debt is held by various entities.

We have \$160 million in senior unsecured fixed-rate notes outstanding at June 30, 2013 that mature over a period from July 2013 to July 2016. Interest on the notes is paid semi-annually based on an annual rate of 6.10 percent. Annual principal repayments of \$40 million are due July 2013 through July 2016. Subsequent to June 30, 2013, we paid the \$40 million due July 21, 2013. We have complied with our financial covenants which require us to maintain a funded leverage ratio of less than 55 percent and an interest coverage ratio (as defined) of not less than 2.50 to 1.00.

We have a \$300 million unsecured revolving credit facility that will mature May 25, 2017. We anticipate that the majority of any borrowings under the facility will accrue interest at a spread over the London Interbank Offered Rate (LIBOR). We will also pay a commitment fee based on the unused balance of the facility. Borrowing spreads as well as commitment fees are determined according to a scale based on a ratio of our total debt to total capitalization. The LIBOR spread ranges from 1.125 percent to 1.75 percent per annum and commitment fees range from .15 percent to .35 percent per annum. Based on our debt to total capitalization on June 30, 2013, the LIBOR spread and commitment fees would be 1.125 percent and .15 percent, respectively. Financial covenants in the facility require us to maintain a funded leverage ratio (as defined) of less than 50 percent and an interest coverage ratio (as defined) of not less than 3.00 to 1.00. The credit facility contains additional terms, conditions, restrictions, and covenants that we believe are usual and customary in unsecured debt arrangements for companies of similar size and credit quality. As of June 30, 2013, there were no borrowings, but there were three letters of credit outstanding in the amount of \$30.7 million. Two of the outstanding letters of credit replaced two collateral trusts that were terminated during the first quarter of fiscal 2013. Upon termination, an amount totaling \$26.1 million was returned to us. At June 30, 2013, we had \$269.3 million available to borrow under our \$300 million unsecured credit facility.

At June 30, 2013, we had two letters of credit outstanding, totaling \$12 million that were issued to support international operations. These letters of credit were issued separately from the \$300 million credit facility so they do not reduce the available borrowing capacity discussed in

the previous paragraph.

8. Income Taxes

Our effective tax rate for the first nine months of fiscal 2013 and 2012 was 35.4 percent and 36.2 percent, respectively. Our effective tax rate for the three months ended June 30, 2013 and 2012 was 35.7 percent and 35.1 percent, respectively. Effective tax rates differ from the U.S. federal statutory rate of 35.0 percent primarily due to state and foreign income taxes and an increase in Internal Revenue Code Section 199 deduction for domestic production activities.

For the next 12 months, we cannot predict with certainty whether we will achieve ultimate resolution of any uncertain tax positions associated with our U.S. and international operations that could result in increases or decreases of our unrecognized tax benefits. However, we believe it is reasonably possible that the reserve for uncertain tax positions may increase by approximately \$7.0 million to \$10.6 million during the next 12 months due to an international matter.

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9. Commitments and Contingencies

In conjunction with our current drilling rig construction program, purchase commitments for equipment, parts and supplies of approximately \$120.5 million are outstanding at June 30, 2013.

Various legal actions, the majority of which arise in the ordinary course of business, are pending. We maintain insurance against certain business risks subject to certain deductibles. None of these legal actions are expected to have a material adverse effect on our financial condition, cash flows or results of operations.

We are contingently liable to sureties in respect of bonds issued by the sureties in connection with certain commitments entered into by us in the normal course of business. We have agreed to indemnify the sureties for any payments made by them in respect of such bonds.

During the ordinary course of our business, contingencies arise resulting from an existing condition, situation or set of circumstances involving an uncertainty as to the realization of a possible gain contingency. We account for gain contingencies in accordance with the provisions of ASC 450, *Contingencies*, and, therefore, we do not record gain contingencies or recognize income until realized. As discussed in Note 2, Discontinued Operations, property and equipment of our Venezuelan subsidiary was seized by the Venezuelan government on June 30, 2010. Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. (*Petroleo*) and PDVSA Petroleo, S.A. (*PDVSA*). Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract.

While there exists the possibility of realizing a recovery, we are currently unable to determine the timing or amounts we may receive, if any, or the likelihood of recovery. No gain contingencies are recognized in our Consolidated Financial Statements.

In the third quarter of fiscal 2013, we settled an arbitration dispute with a third party not affiliated with the Venezuelan government, *Petroleo* or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$15.0 million were received and recorded in discontinued operations.

10. Segment Information

We operate principally in the contract drilling industry. Our contract drilling business includes the following reportable operating segments: U.S. Land, Offshore and International Land. The contract drilling operations consist mainly of contracting Company-owned drilling equipment primarily to large oil and gas exploration companies. To provide information about the different types of business activities in which we operate, we have included Offshore and International Land, along with our U.S. Land reportable operating segment, as separate reportable operating segments. Additionally, each reportable operating segment is a strategic business unit which is managed separately. Our primary international areas of operation include Colombia, Ecuador, Argentina, Tunisia, Bahrain, U.A.E. and other South American countries. Other includes additional non-reportable operating segments. Revenues included in Other consist primarily of rental income. Consolidated revenues

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and expenses reflect the elimination of all material intercompany transactions.

We evaluate segment performance based on income or loss from continuing operations (segment operating income) before income taxes which includes:

- revenues from external and internal customers
- direct operating costs
- depreciation and
- allocated general and administrative costs

but excludes corporate costs for other depreciation, income from asset sales and other corporate income and expense.

General and administrative costs are allocated to the segments based primarily on specific identification and, to the extent that such identification is not practical, on other methods which we believe to be a reasonable reflection of the utilization of services provided.

Segment operating income is a non-GAAP financial measure of our performance, as it excludes certain general and administrative expenses, corporate depreciation, income from asset sales and other corporate income and expense. We consider segment operating income to be an important supplemental measure of operating performance by presenting trends in our core businesses. We use this measure to facilitate period-to-period comparisons in operating performance of our reportable segments in the aggregate by eliminating items that affect comparability between periods. We believe that segment operating income is useful to investors because it provides a means to evaluate the operating performance of the segments on an ongoing basis using criteria

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that are used by our internal decision makers. Additionally, it highlights operating trends and aids analytical comparisons. However, segment operating income has limitations and should not be used as an alternative to operating income or loss, a performance measure determined in accordance with GAAP, as it excludes certain costs that may affect our operating performance in future periods.

Summarized financial information of our reportable segments for the nine months ended June 30, 2013 and 2012 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2013				
Contract Drilling:				
U.S. Land	\$ 2,077,556	\$	\$ 2,077,556	\$ 696,774
Offshore	167,182		167,182	42,778
International Land	268,337		268,337	30,738
	2,513,075		2,513,075	770,290
Other	10,003	643	10,646	(6,638)
	2,523,078	643	2,523,721	763,652
Eliminations		(643)	(643)	
Total	\$ 2,523,078	\$	\$ 2,523,078	\$ 763,652

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2012				
Contract Drilling:				
U.S. Land	\$ 1,983,369	\$	\$ 1,983,369	\$ 670,349
Offshore	135,830		135,830	29,742
International Land	192,305		192,305	13,240
	2,311,504		2,311,504	713,331
Other	10,851	629	11,480	(5,782)
	2,322,355	629	2,322,984	707,549
Eliminations		(629)	(629)	
Total	\$ 2,322,355	\$	\$ 2,322,355	\$ 707,549

Summarized financial information of our reportable segments for the three months ended June 30, 2013 and 2012 is shown in the following tables:

(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2013				
Contract Drilling:				
U.S. Land	\$ 695,816	\$	\$ 695,816	\$ 236,388
Offshore	53,859		53,859	14,122

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International Land	86,978		86,978	8,458
	836,653		836,653	258,968
Other	3,544	214	3,758	(2,464)
	840,197	214	840,411	256,504
Eliminations		(214)	(214)	
Total	\$ 840,197	\$	\$ 840,197	\$ 256,504

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(in thousands)	External Sales	Inter-Segment	Total Sales	Segment Operating Income (Loss)
June 30, 2012				
Contract Drilling:				
U.S. Land	\$ 706,786	\$	\$ 706,786	\$ 235,684
Offshore	41,617		41,617	7,720
International Land	67,482		67,482	6,275
	815,885		815,885	249,679
Other	3,900	209	4,109	(2,161)
	819,785	209	819,994	247,518
Eliminations		(209)	(209)	
Total	\$ 819,785	\$	\$ 819,785	\$ 247,518

The following table reconciles segment operating income per the table above to income from continuing operations before income taxes as reported on the Consolidated Condensed Statements of Income.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Segment operating income	\$ 256,504	\$ 247,518	\$ 763,652	\$ 707,549
Income from asset sales	4,006	1,862	14,538	14,365
Corporate general and administrative costs and corporate depreciation	(20,550)	(16,725)	(64,763)	(51,695)
Operating income	239,960	232,655	713,427	670,219
Other income (expense):				
Interest and dividend income	341	329	1,082	1,021
Interest expense	(2,091)	(2,411)	(4,585)	(7,293)
Gain on sale of investment securities	153,369		162,121	
Other	(1,214)	309	(3,195)	288
Total other income (expense)	150,405	(1,773)	155,423	(5,984)
Income from continuing operations before income taxes	\$ 390,365	\$ 230,882	\$ 868,850	\$ 664,235

The following table presents total assets by reportable segment.

	June 30, 2013	September 30, 2012
	(in thousands)	
Total assets		
U.S. Land	\$ 4,705,254	\$ 4,422,297
Offshore	155,197	160,135
International Land	458,702	467,538
Other	32,047	33,539
	5,351,200	5,083,509
Investments and corporate operations	841,951	629,957

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Total assets from continued operations	6,193,151	5,713,466
Discontinued operations	4,460	7,619
	\$ 6,197,611	\$ 5,721,085

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The following table presents revenues from external customers by country based on the location of service provided.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Operating revenues				
United States	\$ 750,644	\$ 751,387	\$ 2,249,764	\$ 2,113,479
Colombia	22,856	19,046	74,330	58,371
Ecuador	15,993	15,178	48,234	41,753
Argentina	18,943	13,845	50,111	37,953
Other foreign	31,761	20,329	100,639	70,799
Total	\$ 840,197	\$ 819,785	\$ 2,523,078	\$ 2,322,355

11. Pensions and Other Post-retirement Benefits

The following provides information at June 30, 2013 and 2012 related to the Company-sponsored domestic defined benefit pension plan.

Components of Net Periodic Benefit Cost

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Interest cost	\$ 1,105	\$ 1,103	\$ 3,315	\$ 3,309
Expected return on plan assets	(1,496)	(1,293)	(4,488)	(3,878)
Recognized net actuarial loss	685	863	2,055	2,587
Net pension expense	\$ 294	\$ 673	\$ 882	\$ 2,018

Employer Contributions

We paid \$2.1 million to the Pension Plan during the nine months ended June 30, 2013. We do not expect to make additional contributions during fiscal 2013.

12. Risk Factors

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International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company operator's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

13. Recently Issued Accounting Standards

On October 1, 2012, we adopted Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 is intended to create consistency between U.S. GAAP and International Financial Reporting Standards (IFRS) on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. The adoption of these provisions had no material impact on the Consolidated Financial Statements.

On October 1, 2012, we adopted ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 was issued to increase the prominence of other comprehensive income (OCI) in financial statements. Our presentation of OCI is shown in a separate statement and was applied retrospectively. The adoption had no impact on the amount of OCI reported in the Consolidated Financial Statements.

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-2, *Other Comprehensive Income*. This ASU amends ASC 220, *Comprehensive Income*, and supersedes and replaces ASU 2011-05 *Presentation of Comprehensive Income* and ASU 2011-12 *Comprehensive Income*, to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. The standard does not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the guidance does require an entity to provide enhanced disclosures to present separately by component reclassifications out of accumulated other comprehensive income. The amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. We do not believe adoption of this guidance will have a material impact on our Consolidated Financial Statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

June 30, 2013

RISK FACTORS AND FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the Consolidated Condensed Financial Statements and related notes included elsewhere herein and the Consolidated Financial Statements and notes thereto included in our 2012 Annual Report on Form 10-K. Our future operating results may be affected by various trends and factors which are beyond our control. These include, among other factors, fluctuations in natural gas and crude oil prices, early termination of drilling contracts, forfeiture of early termination payments under fixed term contracts due to sustained unacceptable performance, unsuccessful collection of receivables, inability to procure key rig components, failure to timely deliver rigs within applicable grace periods, disruption to or cessation of the business of our limited source vendors or fabricators, currency exchange losses, expropriation of assets, loss of well control, pollution of offshore waters, passage of laws or regulations limiting hydraulic fracturing, a sluggish global economy, changes in general economic and political conditions, adverse weather conditions including hurricanes, rapid or unexpected changes in technologies and uncertain business conditions that affect our businesses. Accordingly, past results and trends should not be used by investors to anticipate future results or trends. Our risk factors are more fully described in our 2012 Annual Report on Form 10-K and elsewhere in this Form 10-Q.

With the exception of historical information, the matters discussed in Management's Discussion & Analysis of Financial Condition and Results of Operations include forward-looking statements. These forward-looking statements are based on various assumptions. We caution that, while we believe such assumptions to be reasonable and make them in good faith, assumptions about future events and conditions almost always vary from actual results. The differences between assumed facts and actual results can be material. We are including this cautionary statement to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or persons acting on our behalf. The factors identified in this cautionary statement are important factors (but not necessarily all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us or persons acting on our behalf. Except as required by law, we undertake no duty to update or revise our forward-looking statements based on changes of internal estimates on expectations or otherwise.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2013 vs. Three Months Ended June 30, 2012

We reported income from continuing operations of \$251.0 million (\$2.32 per diluted share) from operating revenues of \$840.2 million for the third quarter ended June 30, 2013, compared with income from continuing operations of \$149.9 million (\$1.38 per diluted share) from operating revenues of \$819.8 million for the third quarter of fiscal year 2012. In the third quarter of fiscal year 2013, we had income from discontinued operations of \$15.2 million (\$0.14 per diluted share). Including discontinued operations, we recorded net income of \$266.2 million (\$2.46 per diluted share) for the third quarter ended June 30, 2013, compared to net income of \$149.9 million (\$1.38 per diluted share) for the third quarter ended June 30, 2012. Income from continuing operations for the third quarter of fiscal 2013 includes approximately \$92.4 million (\$0.86 per diluted share) of after-tax gains from the sale of investment securities and approximately \$2.6 million (\$0.02 per diluted share) of after-tax gains

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from the sale of assets. Income from continuing operations for the third quarter of fiscal 2012 includes approximately \$1.2 million (\$0.01 per diluted share) of after-tax gains from the sale of assets.

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and met the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, operations from the Venezuelan subsidiary, an operating segment previously within the International Land segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements.

Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleo and PDVSA. Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract.

In the third quarter of fiscal 2013, we settled an arbitration dispute with a third party not affiliated with the Venezuelan government, Petroleo or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$15.0 million were received and recorded in discontinued operations.

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Current assets of discontinued operations consist of restricted cash to meet remaining in-country current obligations. Current and noncurrent liabilities of discontinued operations consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

The following tables summarize operations by reportable operating segment for the three months ended June 30, 2013 and 2012. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 10 to the Consolidated Condensed Financial Statements.

	Three Months Ended June 30,	
	2013	2012
(in thousands, except days and per day amounts)		
U.S. LAND OPERATIONS		
Revenues	\$ 695,816	\$ 706,786
Direct operating expenses	348,850	382,418
General and administrative expense	9,284	7,227
Depreciation	101,294	81,457
Segment operating income	\$ 236,388	\$ 235,684
Revenue days	22,510	21,977
Average rig revenue per day	\$ 28,160	\$ 28,096
Average rig expense per day	\$ 12,746	\$ 13,337
Average rig margin per day	\$ 15,414	\$ 14,759
Rig utilization	83%	89%

U.S. Land segment operating income was \$236.4 million for the third quarter of fiscal 2013 compared to \$235.7 million in the same period of fiscal 2012. Revenues were \$695.8 million and \$706.8 million in the third quarter of fiscal 2013 and 2012, respectively. Included in U.S. land revenues for the three months ended June 30, 2013 and 2012 are reimbursements for out-of-pocket expenses of \$61.9 million and \$89.3 million, respectively.

Average rig margin increased in the comparable quarters primarily due to a reduction in direct operating expenses. Rig utilization in the U.S. Land segment decreased to 83 percent for the third quarter of fiscal 2013 compared to 89 percent for the third quarter of fiscal 2012. U.S. land rig revenue days for the third quarter of fiscal 2013 were 22,510 compared with 21,977 for the same period of fiscal 2012, with an average of 247.4 and 241.5 rigs working during the third quarter of fiscal 2013 and 2012, respectively. Although utilization decreased, revenue days increased due to the addition of new FlexRigs added to the segment since June 30, 2012.

At June 30, 2013, 246 out of 300 existing rigs in the U.S. Land segment were generating revenue. Of the 246 rigs generating revenue, 157 were under fixed term contracts and 89 were working in the spot market. At July 26, 2013, the number of existing rigs working under fixed term contracts in the segment was 156 and the number of rigs working in the spot market was 87. On June 30, 2013, two idle conventional rigs were removed from service.

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	Three Months Ended June 30,	
	2013	2012
(in thousands, except days and per day amounts)		
OFFSHORE OPERATIONS		
Revenues	\$ 53,859	\$ 41,617
Direct operating expenses	33,961	28,972
General and administrative expense	2,214	1,725
Depreciation	3,562	3,200
Segment operating income	\$ 14,122	\$ 7,720
Revenue days	728	606
Average rig revenue per day	\$ 61,380	\$ 49,539
Average rig expense per day	\$ 36,272	\$ 32,638
Average rig margin per day	\$ 25,108	\$ 16,901
Rig utilization	89%	74%

Offshore revenues include reimbursements for out-of-pocket expenses of \$4.0 million and \$3.6 million for the three months ended June 30, 2013 and 2012, respectively.

Segment operating income increased in the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012 primarily due to increased rig utilization and a higher average rig margin per day.

At June 30, 2013, eight of our nine platform rigs were active compared to seven of nine at June 30, 2012.

	Three Months Ended June 30,	
	2013	2012
(in thousands, except days and per day amounts)		
INTERNATIONAL LAND OPERATIONS		
Revenues	\$ 86,978	\$ 67,482
Direct operating expenses	68,310	52,495
General and administrative expense	976	939
Depreciation	9,234	7,773
Segment operating income (loss)	\$ 8,458	\$ 6,275
Revenue days	2,132	1,852
Average rig revenue per day	\$ 35,955	\$ 33,362
Average rig expense per day	\$ 27,364	\$ 25,658
Average rig margin per day	\$ 8,591	\$ 7,704
Rig utilization	80%	77%

International Land segment operating income for the third quarter of fiscal 2013 was \$8.5 million compared to \$6.3 million in the same period of fiscal 2012. Included in International land revenues for the three months ended June 30, 2013 and 2012 are reimbursements for out-of-pocket expenses of \$10.3 million and \$5.7 million, respectively.

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The average revenue per day for the three months ended June 30, 2013 compared to the three months ended June 30, 2012 increased \$2,593 primarily due to higher dayrates for rigs added to the segment since the third quarter of fiscal 2012 compared to dayrates on existing rigs working at June 30, 2012. During the current quarter, an average of 23.2 rigs worked compared to an average of 20.1 rigs in the third quarter of fiscal 2012.

RESEARCH AND DEVELOPMENT

For the three months ended June 30, 2013 and 2012, we incurred \$4.4 million and \$4.3 million, respectively, of research and development expenses related to ongoing development of a rotary steerable system.

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OTHER

General and administrative expenses increased to \$31.1 million in the third quarter of fiscal 2013 from \$25.6 million in the third quarter of fiscal 2012. The increase is primarily due to increases in salaries, bonuses and stock-based compensation along with growth in the number of employees in the comparative periods.

Income from the sale of investment securities was \$153.4 million in the third quarter of fiscal 2013 which was attributable to the sale of available-for-sale securities.

Income tax expense increased to \$139.4 million in the third quarter of fiscal 2013 from \$80.9 million in the third quarter of fiscal 2012, primarily due to an increase in operating income. The effective tax rate from continuing operations increased to 35.7 percent from 35.1 percent for the two comparable quarters.

Interest expense was \$2.1 million and \$2.4 million in the third quarter of fiscal 2013 and 2012, respectively. Capitalized interest, all attributable to our rig construction, was \$2.0 million and \$3.2 million for the comparable quarters. The decrease in interest expense is primarily attributable to a reduction in our debt during fiscal 2012.

Nine Months Ended June 30, 2013 vs. Nine Months Ended June 30, 2012

We reported income from continuing operations of \$561.7 million (\$5.19 per diluted share) from operating revenues of \$2.5 billion for the nine months ended June 30, 2013, compared with income from continuing operations of \$424.0 million (\$3.88 per diluted share) from operating revenues of \$2.3 billion for the first nine months of fiscal year 2012. For the first nine months of fiscal 2013, we had net income from discontinued operations of \$15.2 million (\$0.14 per diluted share). For the first nine months of fiscal year 2012, we had a net loss from discontinued operations of \$0.1 million with no effect on a per diluted share basis. Including discontinued operations, we recorded net income of \$576.8 million (\$5.33 per diluted share) for the nine months ended June 30, 2013, compared to net income of \$423.9 million (\$3.88 per diluted share) for the nine months ended June 30, 2012. Income from continuing operations for the first nine months of fiscal 2013 includes approximately \$97.9 million (\$0.91 per diluted share) of after-tax gains from the sale of investment securities and approximately \$9.4 million (\$0.08 per diluted share) of after-tax gains from the sale of assets. Income from continuing operations for the first nine months of fiscal 2012 includes approximately \$9.2 million (\$0.08 per diluted share) of after-tax gains from the sale of assets.

On June 30, 2010, the Official Gazette of Venezuela published the Decree of Venezuelan President Hugo Chavez, which authorized the forceful acquisition of eleven rigs owned by our Venezuelan subsidiary. The Decree also authorized the seizure of all the personal and real property and other improvements used by our Venezuelan subsidiary in its drilling operations. The seizing of our assets became effective June 30, 2010 and met the criteria established for recognition as discontinued operations under accounting standards for presentation of financial statements. Therefore, operations from the Venezuelan subsidiary, an operating segment previously within the International Land segment, have been classified as discontinued operations in our Consolidated Condensed Financial Statements.

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Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A., filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against the Bolivarian Republic of Venezuela, Petroleo and PDVSA. Our subsidiaries seek damages for the taking of their Venezuelan drilling business in violation of international law and for breach of contract.

In the third quarter of fiscal 2013 we settled an arbitration dispute with a third party not affiliated with the Venezuelan government, Petroleo or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$15.0 million were received and recorded in discontinued operations.

Current assets of discontinued operations consist of restricted cash to meet remaining in-country current obligations. Current and noncurrent liabilities of discontinued operations consist of municipal and income taxes payable and social obligations due within the country of Venezuela.

The following tables summarize operations by reportable operating segment for the nine months ended June 30, 2013 and 2012. Operating statistics in the tables exclude the effects of offshore platform and international management contracts, and do not include reimbursements of out-of-pocket expenses in revenue, expense and margin per day calculations. Per day calculations for international operations also exclude gains and losses from translation of foreign currency transactions. Segment operating income is described in detail in Note 10 to the Consolidated Condensed Financial Statements.

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	Nine Months Ended June 30,	
	2013	2012
(in thousands, except days and per day amounts)		
U.S. LAND OPERATIONS		
Revenues	\$ 2,077,556	\$ 1,983,369
Direct operating expenses	1,064,088	1,057,622
General and administrative expense	27,662	22,720
Depreciation	289,032	232,678
Segment operating income	\$ 696,774	\$ 670,349
Revenue days	66,100	64,389
Average rig revenue per day	\$ 28,152	\$ 27,537
Average rig expense per day	\$ 12,821	\$ 13,160
Average rig margin per day	\$ 15,331	\$ 14,377
Rig utilization	82%	90%

U.S. Land segment operating income increased to \$696.8 million for the first nine months of fiscal 2013 compared to \$670.3 million in the same period of fiscal 2012. Revenues were \$2.1 billion and \$2.0 billion for the first nine months of fiscal 2013 and 2012, respectively. Included in U.S. land revenues for the nine months ended June 30, 2013 and 2012 are reimbursements for out-of-pocket expenses of \$216.7 million and \$210.3 million, respectively.

Segment operating income and average rig margin increased in the comparable quarters as average dayrates increased and average rig expense decreased. U.S. land rig utilization decreased to 82 percent for the first nine months of fiscal 2013 compared to 90 percent for the first nine months of fiscal 2012. U.S. land rig revenue days for the first nine months of fiscal 2013 were 66,100 compared with 64,389 for the same period of fiscal 2012, with an average of 242.1 and 235.0 rigs working during the first nine months of fiscal 2013 and 2012, respectively. Although utilization decreased, revenue days increased due to the addition of new FlexRigs added to the segment since June 30, 2012. On June 30, 2013, two idle conventional rigs were removed from service.

At June 30, 2013, 246 out of 300 existing rigs in the U.S. Land segment were generating revenue. Of the 246 rigs generating revenue, 157 were under fixed term contracts and 89 were working in the spot market. At July 26, 2013, the number of existing rigs working under fixed term contracts in the segment was 156 and the number of rigs working in the spot market was 87. On June 30, 2013, two idle conventional rigs were removed from service.

	Nine Months Ended June 30,	
	2013	2012
(in thousands, except days and per day amounts)		
OFFSHORE OPERATIONS		
Revenues	\$ 167,182	\$ 135,830
Direct operating expenses	107,274	90,646
General and administrative expense	6,608	5,412
Depreciation	10,522	10,030
Segment operating income	\$ 42,778	\$ 29,742
Revenue days	2,184	1,930
Average rig revenue per day	\$ 61,289	\$ 51,013
Average rig expense per day	\$ 36,043	\$ 31,020
Average rig margin per day	\$ 25,246	\$ 19,993
Rig utilization	89%	77%

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Offshore revenues include reimbursements for out-of-pocket expenses of \$16.4 million and \$13.6 million for the nine months ended June 30, 2013 and 2012, respectively.

Segment operating income increased in the first nine months of fiscal 2013 compared to the same period of fiscal 2012 primarily due to increased rig utilization and a higher average rig margin per day.

At June 30, 2013, eight of our nine platform rigs were active compared to seven of nine at June 30, 2012.

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	Nine Months Ended June 30,	
	2013	2012
	(in thousands, except days and per day amounts)	
INTERNATIONAL LAND OPERATIONS		
Revenues	\$ 268,337	\$ 192,305
Direct operating expenses	208,641	154,296
General and administrative expense	2,925	2,512
Depreciation	26,033	22,257
Segment operating income (loss)	\$ 30,738	\$ 13,240
Revenue days	6,392	5,342
Average rig revenue per day	\$ 37,294	\$ 31,974
Average rig expense per day	\$ 27,991	\$ 24,775
Average rig margin per day	\$ 9,303	\$ 7,199
Rig utilization	81%	77%

International Land segment operating income for the first nine months of fiscal 2013 was \$30.7 million compared to operating income of \$13.2 million in the same period of fiscal 2012. Included in International land revenues for the nine months ended June 30, 2013 and 2012 are reimbursements for out-of-pocket expenses of \$30.0 million and \$21.5 million, respectively. Also included in International land revenues for the nine months ended June 30, 2013 is approximately \$5.3 million related to early termination fees.

The average revenue per day for the nine months ended June 30, 2013 compared to the nine months ended June 30, 2012 increased \$5,320 of which \$829 is attributable to the early termination related revenue. The remaining increase is primarily due to higher dayrates for rigs added to the segment since the third quarter of fiscal 2012 compared to dayrates on existing rigs working at June 30, 2012. During the first nine months of fiscal 2013, an average of 23.4 rigs worked compared to an average of 19.5 rigs in the first nine months of fiscal 2012.

RESEARCH AND DEVELOPMENT

For the nine months ended June 30, 2013 and 2012, we incurred \$11.4 million of research and development expenses related to ongoing development of a rotary steerable system.

OTHER

General and administrative expenses increased to \$96.3 million in the first nine months of fiscal 2013 from \$79.5 million in the first nine months of fiscal 2012. The increase is primarily due to increases in salaries, bonuses and stock-based compensation along with growth in the number of employees in the comparative periods.

Income from the sale of investment securities was \$162.1 million in the first nine months of fiscal 2013. The income from the sale of investment securities is the result of a realized gain of \$153.3 million from the sale of available-for-sale securities and a realized gain of \$8.8 million from the sale of our share in three limited partnerships that were primarily invested in international equities.

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Income tax expense increased to \$307.2 million in the first nine months of fiscal 2013 from \$240.2 million in the first nine months of fiscal 2012, primarily due to an increase in operating income. The effective tax rate from continuing operations decreased to 35.4 percent from 36.2 percent for the two comparable periods primarily due to an increase in Internal Revenue Code Section 199 deduction for domestic production activities.

Interest expense was \$4.6 million and \$7.3 million in the first nine months of fiscal 2013 and 2012, respectively. Capitalized interest, all attributable to our rig construction, was \$6.9 million and \$9.6 million for the comparable quarters. The decrease in interest expense is primarily attributable to a reduction in our debt during fiscal 2012.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity

Cash and cash equivalents increased to \$480.5 million at June 30, 2013 from \$96.1 million at September 30, 2012. The following table provides a summary of cash flows:

	Nine Months Ended June 30,		
	2013		2012
	(in thousands)		
Net cash provided (used) by:			
Operating activities	\$	761,643	\$ 612,978
Investing activities		(349,600)	(742,405)
Financing activities		(27,658)	(85,953)
Increase (decrease) in cash and cash equivalents	\$	384,385	\$ (215,380)

Operating activities

Cash flows from operating activities were approximately \$761.6 million for the nine months ended June 30, 2013 compared to approximately \$613.0 million for the same period ended June 30, 2012. The increase in cash provided from operating activities is primarily due to an increase in net income along with an increase in accrued liabilities.

Investing activities

Capital expenditures during the nine months ended June 30, 2013 were \$618.6 compared to \$774.2 during the nine months ended June 30, 2012. During the first nine months of fiscal 2013, we sold our shares in three limited partnerships and shares of stock in available-for-sale securities resulting in proceeds of \$232.2 million.

Financing activities

During the nine months ended June 30, 2012, we purchased treasury shares for \$71.4 million. No purchase of treasury shares were made during the nine months ended June 30, 2013.

Other Liquidity

Funds generated by operating activities, available cash and cash equivalents, and our existing credit facility represent our significant sources of liquidity. Given current market conditions and general expectations, we believe these sources of liquidity will be sufficient to sustain operations and finance estimated capital expenditures, including rig construction, for fiscal 2013. There can be no assurance that we will continue to generate cash flows at current levels or obtain additional financing. Our indebtedness totaled \$235.0 million at June 30, 2013. For additional information regarding debt agreements, refer to Note 7 of the Consolidated Condensed Financial Statements.

Backlog

Our contract drilling backlog, being the expected future revenue from executed contracts with original terms in excess of one year, as of June 30, 2013 and September 30, 2012 was \$3.1 billion and \$3.6 billion, respectively. Approximately 85.8 percent of the June 30, 2013 backlog is not reasonably expected to be filled in fiscal 2013. Term contracts customarily provide for termination at the election of the customer with an early termination payment to be paid to us if a contract is terminated prior to the expiration of the fixed term. However, under certain limited circumstances, such as destruction of a drilling rig, bankruptcy, sustained unacceptable performance by us, or delivery of a rig beyond certain grace and/or liquidated damage periods, no early termination payment would be paid to us. In addition, a portion of the backlog represents term contracts for new rigs that will be constructed in the future. We obtain certain key rig components from a single or limited number of vendors or fabricators. Certain of these vendors or fabricators are thinly capitalized independent companies located on the Texas Gulf Coast. Therefore, disruptions in rig component deliveries may occur. Accordingly, the actual amount of revenue earned may vary from the backlog reported. See the risk factors under Item 1A. Risk Factors of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on November 21, 2012, regarding fixed term contract risk, operational risks, including weather, and vendors that are limited in number and thinly capitalized.

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The following table sets forth the total backlog by reportable segment as of June 30, 2013 and September 30, 2012, and the percentage of the June 30, 2013 backlog not reasonably expected to be filled in fiscal 2013:

Reportable Segment	Three Months Ended		Percentage Not Reasonably Expected to be Filled in Fiscal 2013
	June 30, 2013	September 30, 2012	
	(in billions)		
U.S. Land	\$ 2.5	\$ 3.0	85.5%
Offshore	0.2	0.1	89.5%
International Land	0.4	0.5	86.5%
	\$ 3.1	\$ 3.6	

Capital Resources

During the nine months ended June 30, 2013, we completed 20 FlexRigs that are under fixed term contracts. One additional new FlexRig is under a fixed term contract but has not yet been completed. In addition, we have an agreement to build a new 3,000 horsepower AC drive which is scheduled to begin operations in an international location in the spring of 2014. Like those completed in prior fiscal periods, each of these new rigs is committed to work for an exploration and production company under a fixed term contract, performing drilling services on a daywork contract basis.

Our capital spending estimate for fiscal 2013 is \$890 million. However, the actual spending level may vary depending primarily on actual maintenance capital requirements and on the timing of procurement related to our ongoing newbuild efforts. Capital expenditures were \$618.6 million and \$774.2 million for the first nine months of fiscal 2013 and 2012, respectively.

There were no other significant changes in our financial position since September 30, 2012.

MATERIAL COMMITMENTS

Material commitments as reported in our 2012 Annual Report on Form 10-K has not changed significantly at June 30, 2013.

CRITICAL ACCOUNTING POLICIES

Our accounting policies that are critical or the most important to understand our financial condition and results of operations and that require management to make the most difficult judgments are described in our 2012 Annual Report on Form 10-K. There have been no material changes in these critical accounting policies.

RECENTLY ISSUED ACCOUNTING STANDARDS

On October 1, 2012, we adopted ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 is intended to create consistency between U.S. GAAP and IFRS on the definition of fair value and on the guidance on how to measure fair value and on what to disclose about fair value measurements. The adoption of these provisions had no material impact on the Consolidated Financial Statements.

On October 1, 2012, we adopted ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. ASU No. 2011-05 was issued to increase the prominence of OCI in financial statements. Our presentation of OCI is shown in a separate statement and was applied retrospectively. The adoption had no impact on the amount of OCI reported in the Consolidated Financial Statements.

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-2, *Other Comprehensive Income*. This ASU amends ASC 220, *Comprehensive Income*, and supersedes and replaces ASU 2011-05 *Presentation of Comprehensive Income* and ASU 2011-12 *Comprehensive Income*, to require reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. The standard would not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the guidance would require an entity to provide enhanced disclosures to present separately by component reclassifications out of accumulated other comprehensive income. The amendments in this ASU are effective prospectively for reporting periods beginning after December 15, 2012. We do not believe adoption of this guidance will have a material impact on our Consolidated Financial Statements.

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PART I. FINANCIAL INFORMATION

June 30, 2013

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see

- Note 4 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to equity price risk is incorporated herein by reference;
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 21, 2012;
- Note 7 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to interest rate risk is incorporated herein by reference; and
- Note 12 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof with regard to foreign currency exchange rate risk is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2013, at ensuring that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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Pending Investigation by the U.S. Attorney. In May 2010, one of our employees reported certain possible choke manifold testing irregularities at one offshore platform rig. Operations were promptly suspended on that rig after receiving the employee's report. The Minerals Management Service (now known as the Bureau of Safety and Environmental Enforcement) was promptly notified of the employee's report and it conducted an initial investigation of this matter. Upon conclusion of the initial investigation, we were permitted to resume normal operations on the rig. Also, we promptly commenced an internal investigation of the employee's allegations. Our internal investigation found that Mr. Donald Hudson, our offshore platform rig manager, and certain other employees on the rig failed to follow our policies and procedures, which resulted in termination of all those employees in June 2010. There were no spills or discharges to the environment.

The U.S. Attorney for the Eastern District of Louisiana commenced a grand jury investigation, which is ongoing. We received, and have complied with, a subpoena for documents and have continued to cooperate with this government investigation. Certain of our current and former employees have been interviewed by the government or have testified before the grand jury. In late April 2011, the Company was advised that it is a subject of this investigation. The U.S. Attorney's Office has informed us that it is continuing its investigation with the intent to seek a criminal disposition. Although we presently believe that this matter will not have a material adverse effect on the Company, we can provide no assurances as to the timing or eventual outcome of this investigation. Remedies in these matters could include, among other things, fines and compliance conditions.

Mr. Donald Hudson pleaded guilty in August of 2010 to one felony charge of making false statements to a federal investigator concerning his participation in the testing irregularities that were reported in May 2010. He was sentenced to two years' probation and 120 hours community service. We do not believe that the U.S. Attorney's Office is considering the initiation of criminal proceedings against any of our other employees in connection with this investigation.

Venezuela Expropriation. Our wholly-owned subsidiaries, Helmerich & Payne International Drilling Co. and Helmerich & Payne de Venezuela, C.A. filed a lawsuit in the United States District Court for the District of Columbia on September 23, 2011 against Bolivarian Republic of Venezuela, Petroleos de Venezuela, S.A. (Petroleo) and PDVSA Petroleo, S.A. (PDVSA). We are seeking damages for the taking of our Venezuelan drilling business in violation of international law and for breach of contract.

In the third quarter of fiscal 2013, we settled an arbitration dispute with a third party not affiliated with the Venezuelan government, Petroleo or PDVSA related to the seizure of our property in Venezuela. Proceeds of \$15.0 million were received and recorded in discontinued operations.

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ITEM 1A. RISK FACTORS

International uncertainties and local laws could adversely affect our business.

International operations are subject to certain political, economic and other uncertainties not encountered in U.S. operations, including increased risks of terrorism, kidnapping of employees, expropriation of drilling rigs, equipment, land and other property, as well as expropriation of a particular oil company's property and drilling rights, taxation policies, foreign exchange restrictions, currency rate fluctuations and general hazards associated with foreign sovereignty over certain areas in which operations are conducted. There can be no assurance that there will not be changes in local laws, regulations and administrative requirements or the interpretation thereof which could have a material adverse effect on the profitability of our operations or on our ability to continue operations in certain areas.

Because of the impact of local laws, our future operations in certain areas may be conducted through entities in which local citizens own interests and through entities (including joint ventures) in which we hold only a minority interest or pursuant to arrangements under which we conduct operations under contract to local entities. While we believe that neither operating through such entities nor pursuant to such arrangements would have a material adverse effect on our operations or revenues, there can be no assurance that we will in all cases be able to structure or restructure our operations to conform to local law (or the administration thereof) on terms acceptable to us.

Although we attempt to minimize the potential impact of such risks by operating in more than one geographical area, during the nine months ended June 30, 2013, approximately 11 percent of our consolidated operating revenues were generated from the international contract drilling business. During the nine months ended June 30, 2013, approximately 64 percent of the international operating revenues were from operations in South America.

Reference is made to the risk factors pertaining to the Company's securities portfolio in Item 1A of Part 1 of the Company's Form 10-K for the year ended September 30, 2012. In order to update these risk factors for developments that have occurred during the first nine months of fiscal 2013, the risk factors are hereby amended and updated by reference to, and incorporation herein of Note 4 to the Consolidated Condensed Financial Statements contained in Item 1 of Part I hereof.

Except as discussed above, there have been no material changes to the risk factors disclosed in Item 1A of Part 1 in our Form 10-K for the year ended September 30, 2012.

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ITEM 6. EXHIBITS

The following documents are included as exhibits to this Form 10-Q. Those exhibits below incorporated by reference herein are indicated as such by the information supplied in the parenthetical thereafter. If no parenthetical appears after an exhibit, such exhibit is filed or furnished herewith.

Exhibit Number	Description
10.1	Sixth Amendment to Office Lease between ASP, Inc. and Helmerich & Payne, Inc. dated April 24, 2013 (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on April 26, 2013, SEC File No. 001-04221).
10.2	Stock Purchase Agreement, dated as of May 23, 2013, by and between Helmerich & Payne International Drilling Co. and Atwood Oceanics, Inc. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on May 28, 2013, SEC File No. 001-04221).
10.3	Lock-Up-Agreement, dated as of May 23, 2013, by and between Helmerich & Payne International Drilling Co. and Goldman, Sachs & Co. (incorporated herein by reference to Exhibit 10.2 of the Company's Form 8-K filed with the SEC on May 28, 2013, SEC File No. 001-04221).
10.4	First Amendment to Stock Purchase Agreement dated as of June 13, 2013, by and between Helmerich & Payne International Drilling Co. and Atwood Oceanics, Inc. (incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on June 13, 2013, SEC File No. 001-04221).
31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Helmerich & Payne, Inc. for the quarter ended June 30, 2013, filed on August 2, 2013, formatted in Extensive Business Reporting Language (XBRL): (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Balance Sheets, (iii) the Consolidated Condensed Statements of Stockholders' Equity, (iv) the Consolidated Condensed Statements of Cash Flows and (v) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HELMERICH & PAYNE, INC.
(Registrant)

Date: August 2, 2013

By: /S/ HANS C. HELMERICH
Hans C. Helmerich, Chief Executive Officer

Date: August 2, 2013

By: /S/ JUAN PABLO TARDIO
Juan Pablo Tardio, Chief Financial Officer
(Principal Financial Officer)

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