

SpartanNash Co  
Form 10-Q  
August 20, 2015

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 July 18, 2015.

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

SPARTANNASH COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Michigan	38-0593940
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
850 76 <sup>th</sup> Street, S.W.	
P.O. Box 8700	
Grand Rapids, Michigan	49518

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(Address of Principal Executive Offices) (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 August 17, 2015, the registrant had 37,516,876 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 SpartanNash Company and subsidiaries (“SpartanNash”). These forward-looking statements are identifiable by words or phrases indicating that SpartanNash or management “expects,” “anticipates,” “plans,” “believes,” or “estimates,” or that a particular occurrence or event “will,” “may,” “could,” “should,” or “likely” result, occur or be pursued or “continue” in the future, that the “outlook” or “trend” is toward a particular result or occurrence, that a development is an “opportunity,” “priority,” “strategy,” “focus,” that the Company is “positioned” for a particular result, 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, other 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, SpartanNash’s Annual Report on Form 10-K for the fiscal year ended January 3, 2015 (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 achieve sales and earnings expectations; improve operating results; realize benefits of the merger with Nash-Finch Company (including realization of synergies); maintain or strengthen our retail-store performance; assimilate acquired distribution centers and stores; maintain or grow sales; respond successfully to competitors including remodels and new openings; maintain or improve gross margin; effectively address food cost or price inflation or deflation; maintain or improve customer and supplier relationships; realize expected synergies from other acquisition activity; realize expected benefits of restructuring; realize growth opportunities; maintain or expand our customer base; reduce operating costs; sell on favorable terms assets held for sale; generate cash; continue to meet the terms of our debt covenants; continue to pay dividends; and successfully implement and realize the expected benefits of the other programs, initiatives, systems, plans, priorities, strategies, objectives, goals or expectations described in this Quarterly Report, our other reports, our press releases and our public comments will be affected by changes in economic conditions generally or in the markets and geographic areas that we serve, adverse effects of the changing food and distribution industries, adverse changes in government funded consumer assistance programs, possible changes in the military commissary system, including those stemming from the redeployment of forces, congressional action, changes in funding levels, or the effects of mandated reductions in or sequestration of government expenditures, and other factors.

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 SpartanNash or that SpartanNash currently believes are immaterial also may impair its business, operations, liquidity, financial condition and prospects. We undertake no obligation to update or revise our forward-looking statements to reflect developments that occur or information obtained after the date of this Quarterly Report.



## PART I

## FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## SPARTANNASH COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	July 18, 2015	January 3, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$13,085	\$6,443
Accounts and notes receivable, net	298,034	282,697
Inventories, net	552,327	577,197
Prepaid expenses and other current assets	21,678	31,882
Property and equipment held for sale	5,996	15,180
Total current assets	891,120	913,399
Property and equipment, net	587,871	597,150
Goodwill	331,523	297,280
Other assets, net	122,478	124,453
<b>Total assets</b>	<b>\$1,932,992</b>	<b>\$1,932,282</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$350,719	\$320,037
Accrued payroll and benefits	60,541	73,220
Other accrued expenses	45,705	44,690
Deferred income taxes	28,819	22,494
Current maturities of long-term debt and capital lease obligations	21,669	19,758
Total current liabilities	507,453	480,199
<b>Long-term liabilities</b>		
Deferred income taxes	87,316	91,232
Postretirement benefits	17,022	23,701
Other long-term liabilities	39,379	39,387
Long-term debt and capital lease obligations	516,012	550,510
Total long-term liabilities	659,729	704,830

## Commitments and contingencies (Note 8)

## Shareholders' equity

Common stock, voting, no par value; 100,000 shares

authorized; 37,517 and 37,524 shares outstanding	518,615	520,791
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Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
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Accumulated other comprehensive loss	(11,359 )	(11,655 )
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Retained earnings	258,554	238,117
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Total shareholders' equity	765,810	747,253
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Total liabilities and shareholders' equity	\$1,932,992	\$1,932,282
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See accompanying notes to condensed consolidated financial statements.

## SPARTANNASH COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
Net sales	\$ 1,795,864	\$ 1,810,175	\$ 4,108,547	\$ 4,143,902
Cost of sales	1,533,822	1,545,061	3,510,259	3,531,450
Gross profit	262,042	265,114	598,288	612,452
<b>Operating expenses</b>				
Selling, general and administrative	225,433	228,806	527,804	544,271
Merger integration and acquisition	151	2,581	2,835	6,749
Restructuring (gains) charges and asset impairment	(336 )	1,078	7,002	1,205
Total operating expenses	225,248	232,465	537,641	552,225
Operating earnings	36,794	32,649	60,647	60,227
<b>Other income and expenses</b>				
Interest expense	4,894	5,475	11,644	12,949
Other, net	(26 )	—	(54 )	5
Total other income and expenses	4,868	5,475	11,590	12,954
Earnings before income taxes and discontinued operations	31,926	27,174	49,057	47,273
Income taxes	11,619	9,779	18,303	17,359
Earnings from continuing operations	20,307	17,395	30,754	29,914
Loss from discontinued operations, net of taxes	(46 )	(76 )	(166 )	(285 )
Net earnings	\$ 20,261	\$ 17,319	\$ 30,588	\$ 29,629
<b>Basic earnings per share:</b>				
Earnings from continuing operations	0.54	0.46	\$ 0.82	\$ 0.79
Loss from discontinued operations	—	—	(0.01 )*	— *
Net earnings	0.54	0.46	\$ 0.81	\$ 0.79
<b>Diluted earnings per share:</b>				
Earnings from continuing operations	\$ 0.54	\$ 0.46	\$ 0.81	\$ 0.79
Loss from discontinued operations	—	—	—	— *
Net earnings	\$ 0.54	\$ 0.46	\$ 0.81	\$ 0.79

See accompanying notes to condensed consolidated financial statements.

\*Includes rounding





## SPARTANNASH COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	12 Weeks Ended		28 Weeks Ended	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
Net earnings	\$20,261	\$17,319	\$30,588	\$29,629
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	205	204	477	475
Total other comprehensive income, before tax	205	204	477	475
Income tax expense related to items of other comprehensive income	(78 )	(78 )	(181 )	(181 )
Total other comprehensive income, after tax	127	126	296	294
Comprehensive income	\$20,388	\$17,445	\$30,884	\$29,923

See accompanying notes to condensed consolidated financial statements.

## SPARTANNASH COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Shares Outstanding	Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance - January 3, 2015	37,524	\$520,791	\$ (11,655 )	\$238,117	\$747,253
Net earnings	—	—	—	30,588	30,588
Other comprehensive income	—	—	296	—	296
Dividends - \$0.27 per share	—	—	—	(10,151 )	(10,151 )
Share repurchase	(282 )	(9,000 )	—	—	(9,000 )
Stock-based employee compensation	—	5,662	—	—	5,662
Issuances of common stock and related tax benefit on stock option exercises and stock bonus plan and from deferred compensation plan	138	2,828	—	—	2,828
Issuances of restricted stock and related income tax benefits	312	1,060	—	—	1,060
Cancellations of restricted stock	(175 )	(2,726 )	—	—	(2,726 )
Balance - July 18, 2015	37,517	\$518,615	\$ (11,359 )	\$258,554	\$765,810

See accompanying notes to condensed consolidated financial statements.

## SPARTANNASH COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	28 Weeks Ended	
	July 18, 2015	July 12, 2014
<b>Cash flows from operating activities</b>		
Net earnings	\$ 30,588	\$ 29,629
Loss from discontinued operations, net of tax	166	285
Earnings from continuing operations	30,754	29,914
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Non-cash restructuring and asset impairment charges	5,549	1,205
Depreciation and amortization	45,914	47,702
LIFO expense	3,017	3,527
Postretirement benefits expense	562	2,843
Deferred taxes on income	2,228	4,182
Stock-based compensation expense	5,662	5,064
Excess tax benefit on stock compensation	(1,036 )	(601 )
Other, net	117	(156 )
Changes in operating assets and liabilities:		
Accounts receivable	(16,413 )	(47,178 )
Inventories	25,583	20,305
Prepaid expenses and other assets	1,179	3,123
Accounts payable	31,700	23,566
Accrued payroll and benefits	(14,758 )	(17,617 )
Postretirement benefit payments	(652 )	(4,798 )
Other accrued expenses and other liabilities	3,949	(7,108 )
Net cash provided by operating activities	123,355	63,973
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(37,186 )	(37,620 )
Net proceeds from the sale of assets	16,613	3,427
Acquisition, net of cash acquired	(32,229 )	—
Loans to customers	(2,075 )	(4,544 )
Payments from customers on loans	834	2,453
Other	(563 )	(163 )
Net cash used in investing activities	(54,606 )	(36,447 )
<b>Cash flows from financing activities</b>		
Proceeds from revolving credit facility	528,237	557,975
Payments on revolving credit facility	(558,709)	(575,729)
Share repurchase	(9,000 )	—
Repayment of other long-term debt	(4,671 )	(4,246 )
Financing fees paid	(1,868 )	(436 )
Excess tax benefit on stock compensation	1,036	601
Proceeds from sale of common stock	2,401	758

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Dividends paid	(10,151 )	(9,059 )
Net cash used in financing activities	(52,725 )	(30,136 )
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	593	(186 )
Net cash used in investing activities	(9,975 )	—
Net cash used in discontinued operations	(9,382 )	(186 )
Net increase (decrease) in cash and cash equivalents	6,642	(2,796 )
Cash and cash equivalents at beginning of period	6,443	9,216
Cash and cash equivalents at end of period	\$ 13,085	\$ 6,420

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Summary of Significant Accounting Policies and Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements (the “financial statements”) include the accounts of SpartanNash Company and its subsidiaries (“SpartanNash” or the “Company”). 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 SpartanNash as of July 18, 2015, 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

On April 7, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03 “Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective on a retrospective basis for fiscal years beginning after December 15, 2015, and interim periods within those years. Adoption of this standard in fiscal 2016 will retroactively decrease Other long-term assets and Long-term debt. As of July 18, 2015, such amount was approximately \$9.6 million.

On April 10, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-08 “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 changed the criteria for reporting discontinued operations and modified related disclosure requirements. The Company adopted ASU 2014-08 in the first quarter of fiscal 2015. Adoption of ASU 2014-08 did not have a material impact on the Consolidated Financial Statements.

On May 28, 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which provides guidance for revenue recognition. The new guidance contained in the ASU affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB approved a one-year deferral of the effective date of this new guidance, which results in the guidance being effective for the Company in the first quarter of its fiscal year ending December 29, 2018. Adoption is allowed by

either the full retrospective or modified retrospective approach. The Company is currently in the process of evaluating the impact of adoption of this ASC on its Consolidated Financial Statements.

### Note 3 Acquisitions

On June 16, 2015, SpartanNash acquired certain assets and assumed certain liabilities of Dan's Super Market, Inc. ("Dan's") for a total purchase price of \$32.6 million, which includes inventory of \$3.8 million. The results of operations of the Dan's acquisition are included in the accompanying Condensed Consolidated Financial Statements from the date of acquisition. Dan's is a six-store chain serving Bismarck and Mandan, North Dakota, and was not a customer of the SpartanNash Food Distribution segment prior to the acquisition. SpartanNash acquired the Dan's stores to strengthen its offering in this region from both a retail and distribution perspective. The purchased assets include inventory, equipment, trade name, favorable lease, non-compete agreements, and goodwill. The acquired assets and assumed liabilities were recorded at their estimated fair values as of the acquisition date and were based on preliminary estimates that may be subject to further adjustments within the measurement period. Goodwill of \$24.5 million and \$1.0 million was preliminarily assigned to the Retail and Food Distribution segments, respectively.

On June 2, 2015, SpartanNash acquired certain assets of Bo's Super Market, Inc. ("Bo's"). Bo's is a twelve-store chain serving southeastern North Carolina and was a customer of the SpartanNash Food Distribution segment prior to the acquisition. SpartanNash intends to sell the stores to an independent distribution customer within the 12-month period following the acquisition. The purchased assets include inventory, equipment, and goodwill and are classified as held for sale in the Condensed Consolidated Balance Sheets. The acquired assets were recorded at their estimated fair values less estimated costs to sell as of the acquisition date and were based on preliminary estimates that may be subject to further adjustments within the measurement period. Goodwill of \$8.7 million was preliminarily assigned to the Food Distribution segment. The results of operations are reported as discontinued operations in the Condensed Consolidated Financial Statements as the acquired assets meet the criteria to be held for sale at the date of acquisition.

Note 4 Goodwill

Changes in the carrying amount of goodwill were as follows:

(In thousands)	Retail	Food Distribution	Total
<b>Balance at January 3, 2015:</b>			
Goodwill	\$252,532	\$ 131,348	\$383,880
Accumulated impairment charges	(86,600 )	—	(86,600 )
Goodwill, net	165,932	131,348	297,280
Acquisitions (including held-for-sale disposal group)	24,512	9,746	34,258
Other	(15 )	—	(15 )
<b>Balance at July 18, 2015:</b>			
Goodwill	277,029	141,094	418,123
Accumulated impairment charges	(86,600 )	—	(86,600 )
Goodwill, net	\$ 190,429	\$ 141,094	\$ 331,523

Note 5 Restructuring and Asset Impairment

The following table provides the activity of restructuring costs for the 28 weeks ended July 18, 2015. 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)	Lease and Ancillary Costs	Severance	Total
<b>Balance at January 3, 2015</b>	\$ 13,988	\$ 80	\$ 14,068
Provision for lease and related ancillary costs, net of sublease income	6,760	—	6,760 (a)
Provision for severance	—	304	304 (b)
Changes in estimates	(287 )	—	(287 )(c)
Lease termination adjustment	(1,745 )	—	(1,745 )(d)
Accretion expense	326	—	326
Payments	(3,404 )	(304 )	(3,708 )
<b>Balance at July 18, 2015</b>	\$ 15,638	\$ 80	\$ 15,718

(a) The provision for lease and related ancillary costs represents the initial charges estimated to be incurred for store closings in the Retail segment.

(b) The provision for severance relates to a distribution center closing in the Food Distribution segment.

(c) The changes in estimates relate to revised estimates of lease and ancillary costs and sublease income associated with previously closed stores.

(d)

The lease termination adjustment represents the benefit recognized in connection with lease buyouts on two previously closed stores. The lease liabilities were formerly included in our restructuring cost liability based on initial estimates.

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.



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Restructuring and asset impairment charges included in the Condensed Consolidated Statements of Earnings consisted of the following:

(In thousands)	12 Weeks Ended		28 Weeks Ended	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
Asset impairment charges (a)	\$—	\$—	\$ 2,353	\$ 906
Provision for leases and related ancillary costs, net of				
sublease income, related to store closings (b)	—	218	6,760	236
(Gains) losses on sales of assets related to closed facilities (c)	(336)	320	(1,876)	(998 )
Provision for severance (d)	—	70	304	266
Other costs associated with distribution center and store closings	—	163	1,493	887
Changes in estimates (e)	—	307	(287 )	(92 )
Lease termination adjustment (f)	—	—	(1,745)	—
	\$ (336)	\$ 1,078	\$ 7,002	\$ 1,205

- (a) The asset impairment charges were incurred in the Retail segment due to the economic and competitive environment of certain stores.
- (b) The provision for lease and related ancillary costs, net of sublease income, represents the initial charges estimated to be incurred for store closings in the Retail segment.
- (c) The (gains) losses on sales of assets resulted from the sale of a closed food distribution center and sales of closed stores in fiscal 2015 and sales of assets related to closed stores in fiscal 2014.
- (d) The provision for severance related to distribution center closings in the Food Distribution segment.
- (e) The changes in estimates relates to revised estimates of lease ancillary costs associated with previously closed facilities in the Retail and Food Distribution segments. The Retail segment realized \$(287) and \$(379) in the 28 weeks ended July 18, 2015 and July 12, 2014, respectively.
- (f) The lease termination adjustment represents the benefit recognized in connection with lease buyouts on two previously closed stores.

Note 6 Long-Term Debt

On January 9, 2015, SpartanNash Company and certain of its subsidiaries entered into an amendment (the “Amendment”) to the Company’s Amended and Restated Loan and Security Agreement (the “Credit Agreement”) with Wells Fargo Capital Finance, LLC, as administrative agent, and certain lenders to the Credit Agreement. The Amendment reduced the interest rates by 0.25% and extended the maturity date of the Loan Agreement from November 19, 2018 to January 9, 2020.

Note 7 Fair Value Measurements

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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 maturities of these financial instruments. At July 18, 2015 and January 3, 2015 the estimated fair value and the book value of our debt instruments were as follows:

(In thousands)	July 18, 2015	January 3, 2015
<b>Book value of debt instruments:</b>		
Current maturities of long-term debt and capital lease obligations	\$ 21,669	\$ 19,758
Long-term debt and capital lease obligations	516,012	550,510
Total book value of debt instruments	537,681	570,268
Fair value of debt instruments	541,599	574,008
Excess of fair value over book value	\$ 3,918	\$ 3,740

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

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 entity's own assumptions about the assumptions that market participants would use in pricing.

Long-lived assets are measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. Assets with a book value of \$5.6 million and \$0.9 million were measured at fair value of \$3.2 million and \$0.0 million, respectively, in the 28 weeks ended July 18, 2015 and July 12, 2014, respectively. Our accounting and finance team management, which report to the chief financial officer, determine our valuation policies and procedures. The development and determination of the unobservable inputs for level 3 fair value measurements and fair value calculations are the responsibility of our accounting and finance team management and are approved by the chief financial officer. Fair value of long-lived assets is determined by estimating the amount and timing of net future cash flows, discounted using a risk-adjusted rate of interest. SpartanNash estimates future cash flows based on experience and knowledge of the market in which the assets are located, and when necessary, uses real estate brokers. See Note 5 for discussion of long-lived asset impairment charges.

#### Note 8 Commitments and Contingencies

We are engaged from time-to-time in routine legal proceedings incidental to our business. We do not believe that these routine legal proceedings, taken as a whole, will have a material impact on our business or financial condition. While the ultimate effect of such actions cannot be predicted with certainty, management believes that their outcome will not result in a material adverse effect on the consolidated financial position, operating results or liquidity of SpartanNash.

SpartanNash contributes to the Central States multi-employer pension plan based on obligations arising from its collective bargaining agreements in Bellefontaine, Ohio, Lima, Ohio, and Grand Rapids, Michigan covering its distribution center union associates at those locations. 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 contributing employers and unions; however, SpartanNash 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. SpartanNash currently contributes 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 varying increases in employer contributions over the previous year's contribution. Increases are set within the collective bargaining agreement and vary by location. On December 13, 2014, Congress passed the Multiemployer Pension Reform Act of 2014 ("MPRA"). The MPRA is intended to address funding shortfalls in both multiemployer pension plans and the Pension Benefit Guaranty Corporation. Because the MPRA is a complex piece of legislation, its effects on the Plan and potential implications for the Company are not known at this time. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined.

Based on the most recent information available to SpartanNash, management believes 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 SpartanNash is 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 management anticipates that SpartanNash's

contributions to this plan will increase each year. Management is not aware of any significant change in funding levels since January 3, 2015. To reduce this underfunding, management expects meaningful increases in expense as a result of required incremental multi-employer pension plan contributions in future years. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined (see Note 9 to the Condensed Consolidated Financial Statements).

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Note 9 Associate Retirement Plans

The following table provides the components of net periodic pension and postretirement benefit costs for the 12 weeks and 28 weeks ended July 18, 2015 and July 12, 2014:

(In thousands) 12 Weeks Ended	July 18, 2015		July 12, 2014	
	Combined Cash			
	SpartanNash Pension Plan	SpartanNash Pension Plan	Cash Balance Pension Plan	Super Foods Pension Plan
Interest cost	\$ 767	\$ 1,018	\$ 557	\$ 461
Expected return on plan assets	(1,136)	(1,400)	(868 )	(532 )
Recognized actuarial net loss	191	228	228	—
Net periodic benefit	\$ (178 )	\$ (154 )	\$ (83 )	\$ (71 )
Settlement expense	131	522	522	—
Total expense (income)	\$ (47 )	\$ 368	\$ 439	\$ (71 )

(In thousands) 12 Weeks Ended	SERP		Spartan Stores Medical Plan	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
Service cost	\$ —	\$ —	\$ 53	\$ 43
Interest cost	7	8	93	91
Amortization of prior service cost	—	—	(36 )	(37 )
Recognized actuarial net loss	10	7	40	5
Net periodic benefit	\$ 17	\$ 15	\$ 150	\$ 102

\*The amounts above reflect the combined values of the Cash Balance and Super Foods Pension Plans as of July 12, 2014.

(In thousands) 28 Weeks Ended	July 18, 2015		July 12, 2014	
	Combined Cash			
	SpartanNash Pension Plan	SpartanNash Pension Plan	Cash Balance Pension Plan	Super Foods Pension Plan
Interest cost	\$ 1,791	\$ 2,373	\$ 1,298	\$ 1,075
Expected return on plan assets	(2,651)	(3,265)	(2,024)	(1,241 )
Recognized actuarial net loss	445	533	533	-
Net periodic benefit	\$ (415 )	\$ (359 )	\$ (193 )	\$ (166 )
Settlement expense	306	522	522	-
Total expense (income)	\$ (109 )	\$ 163	\$ 329	\$ (166 )

(In thousands) 28 Weeks Ended	SERP		Spartan Stores Medical Plan	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
Service cost	\$ -	\$ -	\$ 124	\$ 100
Interest cost	17	19	218	212

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Amortization of prior service cost	-	-	(85 )	(85 )
Recognized actuarial net loss	22	16	93	11
Net periodic benefit	\$ 39	\$ 35	\$ 350	\$ 238

On December 31, 2014, the Super Foods Plan was merged into the Cash Balance Pension Plan which was renamed the SpartanNash Company Pension Plan. The Company made contributions of \$0.7 million to the SpartanNash Company Pension Plan during the 28 weeks ended July 18, 2015. This amount was determined based on 2014 plan year funding valuation results of the legacy Super Foods Plan. The Company does not expect to make any additional contributions for the fiscal year ending January 2, 2016.

As previously stated in Note 8, SpartanNash contributes to the Central States Southeast and Southwest Areas Pension Fund (“Fund”) (EIN 7456500) under the terms of the existing collective bargaining agreements and in the amounts set forth in the related collective bargaining agreements. SpartanNash employer contributions during the fiscal year ended January 3, 2015 totaled \$12.9 million, which Fund administrators represent is less than 5% of total employer contributions to the Fund. SpartanNash’s employer contributions for the 28 weeks ended July 18, 2015 and July 12, 2014 were \$7.4 million and \$7.3 million, respectively. Based on the most recent information available to SpartanNash, management believes 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 SpartanNash is 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 management anticipates that SpartanNash’s contributions to this plan will increase each year. On December 13, 2014, Congress passed the Multiemployer Pension Reform Act of 2014 (“MPRA”). The MPRA is intended to address funding shortfalls in both multiemployer pension plans and the Pension Benefit Guaranty Corporation. Because the MPRA is a complex piece of legislation, its effects on the Plan and potential implications for the Company are not known at this time. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined.

#### Note 10 Other Comprehensive Income or Loss

SpartanNash 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 SpartanNash, 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 SpartanNash, AOCI is the cumulative balance related to pension and other postretirement benefits.

During the 12 week periods ended July 18, 2015 and July 12, 2014, \$0.1 million was reclassified from AOCI to the Condensed Consolidated Statement of Earnings, of which \$0.2 million increased selling, general and administrative expenses and \$0.1 million reduced income taxes. During the 28 week periods ended July 18, 2015 and July 12, 2014, \$0.3 million was reclassified from AOCI to the Condensed Consolidated Statement of Earnings, of which \$0.5 million increased selling, general and administrative expenses and \$0.2 million reduced income taxes.

#### Note 11 Income Taxes

The effective income tax rate was 36.4% and 36.0% for the 12 weeks ended July 18, 2015 and July 12, 2014, respectively. For the 28 weeks ended July 18, 2015 and July 12, 2014, the effective income tax rate was 37.3% and 36.7%, respectively. The differences from the Federal statutory rate in the current and prior year periods are primarily due to state income taxes.

#### Note 12 Share Based Compensation

SpartanNash 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.

SpartanNash accounts for share-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 financial statements over the period that an employee is required to provide services in exchange for the award. SpartanNash recognized share-based compensation expense (net of tax) of \$0.6 million (\$0.01 per diluted share) and \$0.7 million (\$0.02 per diluted share) for the 12 weeks ended July 18, 2015 and July 12, 2014, respectively, as a component of Operating expenses and Income taxes in the Condensed Consolidated Statements of Earnings. Share-based compensation expense (net of tax) was \$3.5 million (\$0.09 per diluted share) and \$3.1 million (\$0.08 per diluted share) for the 28 weeks ended July 18, 2015 and July 12, 2014, respectively.



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The following table summarizes activity in the share-based compensation plans for the 28 weeks ended July 18, 2015:

	Shares Under Options	Weighted Average Exercise Price	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
Outstanding at January 3, 2015	494,483	\$ 20.61	600,653	23.08
Granted	—	—	312,050	26.56
Exercised/Vested	(109,401)	21.95	(265,737)	19.30
Cancelled/Forfeited	(63)	11.50	(7,890)	21.98
Outstanding at July 18, 2015	385,019	\$ 20.23	639,076	24.73
Vested and expected to vest in the future at				
July 18, 2015	385,019	\$ 20.23		
Exercisable at July 18, 2015	385,019	\$ 20.23		

There were no stock options granted during the 28 weeks ended July 18, 2015 and July 12, 2014.

As of July 18, 2015, total unrecognized compensation cost related to non-vested share-based awards granted under our stock incentive plans was \$7.2 million for restricted stock. The remaining compensation costs not yet recognized are expected to be recognized over a weighted average period of 2.7 years for restricted stock. All compensation costs related to stock options have been recognized.

#### Note 13 Discontinued Operations

Results of the discontinued operations are excluded from the accompanying notes to the consolidated financial statements for all periods presented, unless otherwise noted.

In connection with the asset purchase of Bo's on June 2, 2015, the acquisition met the held-for-sale criteria and represents a business that, on acquisition, is a discontinued operation. The Company intends to sell the stores to an independent distribution customer within the 12-month period following the acquisition. Inventories and equipment of \$3.3 million and \$0.1 million, respectively, which were measured at fair value less estimated costs to sell at the time of acquisition, are classified as held for sale in the Condensed Consolidated Balance Sheets as of July 18, 2015. The Bo's discontinued operation is reported under the Retail segment with operating results and cash flows reported as discontinued operations in the Condensed Consolidated Financial Statements.

There were no additional operations that were reclassified to discontinued operations during the 28 weeks ended July 18, 2015.

## Note 14 Earnings Per Share

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

(In thousands, except per share amounts)	12 Weeks Ended		28 Weeks Ended	
	July 18, 2015	July 12, 2014	July 18, 2015	July 12, 2014
<b>Numerator:</b>				
Earnings from continuing operations	\$ 20,307	\$ 17,395	\$ 30,754	\$ 29,914
Adjustment for earnings attributable to participating securities	(350 )	(296 )	(546 )	(535 )
Earnings from continuing operations used in calculating earnings per share	\$ 19,957	\$ 17,099	\$ 30,208	\$ 29,379
<b>Denominator:</b>				
Weighted average shares outstanding, including participating securities	37,584	37,744	37,644	37,662
Adjustment for participating securities	(648 )	(642 )	(668 )	(673 )
Shares used in calculating basic earnings per share	36,936	37,102	36,976	36,989
Effect of dilutive stock options	126	66	126	76
Shares used in calculating diluted earnings per share	37,062	37,168	37,102	37,065
Basic earnings per share from continuing operations	\$ 0.54	\$ 0.46	\$ 0.82	\$ 0.79
Diluted earnings per share from continuing operations	\$ 0.54	\$ 0.46	\$ 0.81	\$ 0.79

## Note 15 Supplemental Cash Flow Information

Non-cash financing activities include the issuance of restricted stock to employees and directors of \$8.3 million and \$7.0 million for the 28 weeks ended July 18, 2015 and July 12, 2014, respectively. Non-cash investing activities include capital expenditures included in accounts payable of \$2.3 million and \$3.8 million for the 28 weeks ended July 18, 2015 and July 12, 2014, respectively.

## Note 16 Operating Segment Information

The following tables set forth information about SpartanNash by operating segment:

(In thousands)	Military	Food Distribution	Retail	Total
<b>12 Week Period Ended July 18, 2015</b>				
Net sales to external customers	\$497,047	\$ 782,743	\$516,074	\$1,795,864
Inter-segment sales	—	229,087	—	229,087
Merger integration and acquisition expenses	—	(1,151 )	1,302	151
Depreciation and amortization	2,810	6,169	10,474	19,453
Operating earnings	3,895	19,406	13,493	36,794
Capital expenditures	1,795	5,542	17,125	24,462

(In thousands)	Military	Food Distribution	Retail	Total
<b>12 Week Period Ended July 12, 2014</b>				
Net sales to external customers	\$502,402	\$ 767,926	\$539,847	\$1,810,175
Inter-segment sales	—	243,866	—	243,866
Merger integration and acquisition expenses	24	2,554	3	2,581
Depreciation and amortization	1,552	7,155	10,710	19,417
Operating earnings	5,884	10,670	16,095	32,649
Capital expenditures	2,653	3,423	8,705	14,781

(In thousands)	Military	Food Distribution	Retail	Total
<b>28 Week Period Ended July 18, 2015</b>				