SpartanNash Co
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 4, 2014.

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 (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	49518

Grand Rapids, Michigan
(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 x 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 x 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 x
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 x

As of November 3, 2014, the registrant had 37,495,960 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 “ 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 transition period ended December 28, 2013 (in particular, you should refer to the discussion of “Risk Factors” in Item 1A of our Transition 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)

	October 4, 2014	December 28, 2013
Assets		
Current assets		
Cash and cash equivalents	$8,048	$9,216
Accounts and notes receivable, net	305,433	285,393
Inventories, net	612,901	589,497
Prepaid expenses and other current assets	34,093	38,423
Property and equipment held for sale	11,013	440
Total current assets	971,488	922,969
Property and equipment, net	596,294	628,482
Goodwill	297,352	299,186
Other assets, net	126,135	133,014
Total assets	$1,991,269	$1,983,651
Liabilities and Shareholders’ Equity		
Current liabilities		
Accounts payable	$411,279	$365,584
Accrued payroll and benefits	64,307	81,175
Other accrued expenses	43,851	51,992
Deferred income taxes	22,987	18,706
Current maturities of long-term debt and capital lease obligations	7,349	7,345
Total current liabilities	549,773	524,802
Long-term liabilities		
Deferred income taxes	91,602	86,750
Postretirement benefits	18,855	22,009
Other long-term liabilities	37,261	44,898

Long-term debt and capital lease obligations	549,530	598,319
Total long-term liabilities	697,248	751,976
Commitments and contingencies (Note 7)		
Shareholders' equity		
Common stock, voting, no par value; 100,000 shares authorized; 37,625 and 37,371 shares outstanding	521,875	518,056
Preferred stock, no par value, 10,000 shares authorized; no shares outstanding	—	—
Accumulated other comprehensive loss	(8,375)	(8,794)
Retained earnings	230,748	197,611
Total shareholders' equity	744,248	706,873
Total liabilities and shareholders' equity	$1,991,269	$1,983,651

See accompanying notes to condensed consolidated financial statements.

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SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	12 Weeks Ended		40 Weeks Ended	
	October 4, 2014	October 12, 2013	October 4, 2014	October 12, 2013
Net sales	$1,809,571	$630,088	$5,953,473	$2,061,491
Cost of sales	1,548,162	499,627	5,079,612	1,625,890
Gross profit	261,409	130,461	873,861	435,601
Operating expenses				
Selling, general and administrative	227,690	113,455	771,961	377,740
Merger transaction and integration	1,379	4,634	8,128	7,011
Restructuring and asset impairment	(1,272)	—	(67)	2,220
Total operating expenses	227,797	118,089	780,022	386,971
Operating earnings	33,612	12,372	93,839	48,630
Other income and expenses				
Interest expense	5,467	2,205	18,416	8,211
Debt extinguishment	—	—	—	2,762
Other, net	(1)	(5)	4	(20)
Total other income and expenses	5,466	2,200	18,420	10,953
Earnings before income taxes and discontinued operations	28,146	10,172	75,419	37,677
Income taxes	10,977	3,513	28,336	14,050
Earnings from continuing operations	17,169	6,659	47,083	23,627
Loss from discontinued operations, net of taxes	(73)	(88)	(358)	(428)
Net earnings	$17,096	$6,571	$46,725	$23,199
Basic earnings per share:				
Earnings from continuing operations	0.46	0.30	1.25	1.08
Loss from discontinued operations	(0.01)*	—	(0.01)	(0.02)
Net earnings	0.45	0.30	1.24	1.06
Diluted earnings per share:				
Earnings from continuing operations	$0.45	$0.30	$1.25	$1.08
Loss from discontinued operations	—	—	(0.01)	(0.02)
Net earnings	$0.45	$0.30	$1.24	$1.06

Weighted average shares outstanding:				
Basic	37,717	21,876	37,678	21,820
Diluted	37,778	21,969	37,749	21,908

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		40 Weeks Ended	
	October 4, 2014	October 12, 2013	October 4, 2014	October 12, 2013
Net earnings	$17,096	$6,571	$46,725	$23,199
Other comprehensive income, before tax				
Pension and postretirement liability adjustment	203	336	678	845
Total other comprehensive income, before tax	203	336	678	845
Income tax benefit related to items of other comprehensive income	(78)	(130)	(259)	(327)
Total other comprehensive income, after tax	125	206	419	518
Comprehensive income	$17,221	$6,777	$47,144	$23,717

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 – December 28, 2013	37,371	$518,056	$ (8,794)	$197,611	$706,873
Net earnings	—	—	—	46,725	46,725
Other comprehensive income	—	—	419	—	419
Dividends ($0.36 per share)	—	—	—	(13,588)	(13,588)
Share repurchase	(121)	(2,492)	—	—	(2,492)
Stock-based employee compensation	—	6,017	—	—	6,017
Issuances of common stock and related tax benefit on stock option exercises and stock bonus plan and from deferred compensation plan	145	1,393	—	—	1,393
Issuances of restricted stock and related income tax benefits	317	530	—	—	530
Cancellations of restricted stock	(87)	(1,629)	—	—	(1,629)
Balance – October 4, 2014	37,625	$521,875	$ (8,375)	$230,748	$744,248

See accompanying notes to condensed consolidated financial statements.

SPARTANNASH COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	40 Weeks Ended	
	October 4, 2014	October 12, 2013
Cash flows from operating activities		
Net earnings	$46,725	$23,199
Loss from discontinued operations, net of tax	358	428
Earnings from continuing operations	47,083	23,627
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Restructuring and asset impairment charges	(67)	2,220
Convertible debt interest	—	379
Loss on debt extinguishment	—	2,762
Depreciation and amortization	68,043	31,586
LIFO expense	5,077	413
Postretirement benefits expense	1,093	147
Deferred income taxes	3,640	(7,885)
Stock-based compensation expense	6,017	2,865
Excess tax benefit on stock compensation	(651)	(146)
Other, net	(205)	99
Changes in operating assets and liabilities:		
Accounts receivable	(18,629)	(9,540)
Inventories	(29,582)	(5,857)
Prepaid expenses and other assets	4,676	6,841
Accounts payable	59,079	11,245
Accrued payroll and benefits	(17,021)	(4,273)
Postretirement benefit payments	(4,016)	(252)
Other accrued expenses and other liabilities	(7,152)	1,906
Net cash provided by operating activities	117,385	56,137
Cash flows from investing activities		
Purchases of property and equipment	(57,611)	(28,784)
Net proceeds from the sale of assets	5,368	115
Loans to customers	(4,915)	—
Payments from customers on loans	2,864	—
Other	(68)	(1,095)
Net cash used in investing activities	(54,362)	(29,764)
Cash flows from financing activities		
Proceeds from revolving credit facility	788,740	424,384
Payments on revolving credit facility	(831,688)	(387,315)

Share repurchase	(2,492)	—
Repurchase of convertible notes	—	(57,973)
Repayment of other long-term debt	(5,836)	(3,139)
Financing fees paid	(479)	(27)
Excess tax benefit on stock compensation	651	146
Proceeds from sale of common stock	780	224
Dividends paid	(13,588)	(5,679)
Net cash used in financing activities	(63,912)	(29,379)
Cash flows from discontinued operations		
Net cash used in operating activities	(279)	(454)
Net cash used in discontinued operations	(279)	(454)
Net decrease in cash and cash equivalents	(1,168)	(3,460)
Cash and cash equivalents at beginning of period	9,216	8,960
Cash and cash equivalents at end of period	$8,048	$5,500

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

SpartanNash Company was formerly known as Spartan Stores, Inc. which began doing business under the assumed name of "SpartanNash Company," upon completion of the merger with Nash-Finch Company ("Nash-Finch") on November 19, 2013. The formal name change to SpartanNash Company was approved and became effective after the annual shareholders meeting on May 28, 2014. The accompanying unaudited Condensed Consolidated Financial Statements (the "financial statements") include the accounts of SpartanNash Company and its subsidiaries ("SpartanNash"). The operating results of Nash-Finch are included in the financial statements for the year-to-date and third quarter ended October 4, 2014 only. All significant intercompany accounts and transactions have been eliminated.

In connection with the merger with Nash-Finch, effective November 19, 2013, the Board of Directors of SpartanNash determined to change the Company's fiscal year end from the last Saturday in March to the Saturday nearest to December 31, beginning with the transition period ended December 28, 2013. Beginning with fiscal 2014 the Company's interim quarters consist of 12 weeks, except for the first quarter which consists of 16 weeks. As a result of this change, in these financial statements, including the notes thereto, financial results for the current third quarter and year-to-date ended October 4, 2014 are for 12 and 40 weeks, respectively. In addition, our Condensed Consolidated Statements of Earnings include an unaudited 12-week period and 40-week period ended October 12, 2013 and the Condensed Consolidated Statements of Cash Flows for the prior year include an unaudited 40-week period ended October 12, 2013. The prior year financial statements were recast to the new fiscal year format based upon the original fiscal period end dates. As a result, the period end date for the prior year financial statements differs with the current year by one week and the full prior fiscal year will consist of 51 weeks with the fourth quarter comprised of only 11 weeks. Fiscal year 2014 will consist of 53 weeks with the fourth quarter comprised of 13 weeks.

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 October 4, 2014, 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 10, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 changes the criteria for reporting discontinued operations and modifies related disclosure requirements. The new guidance is effective on a prospective basis for fiscal years beginning after December 15, 2014, and interim periods within those years. The Company is currently assessing the potential impact of ASU No. 2014-08 on its 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. This guidance will be effective for the Company in the first quarter of its fiscal year ending December 30, 2017. 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 ASU on the Company's financial statements.

Note 3 Merger

On November 19, 2013, Spartan Stores, Inc. completed a merger with Nash-Finch, a food distribution company serving military commissaries and exchanges and independent grocery retailers as well as an operator of retail grocery stores.

The merger was accounted for under the provisions of FASB Accounting Standards Codification Topic 805, "Business Combinations." The related assets acquired and liabilities assumed were recorded at estimated fair values on the acquisition date.

The following table summarizes the fair values of the assets acquired and liabilities assumed on November 19, 2013. During the measurement period, which will end on November 18, 2014, net adjustments of $7.0 million have been made to the fair values of the assets acquired and liabilities assumed with a corresponding adjustment to goodwill. These adjustments are summarized in the table presented below. The accompanying condensed consolidated balance sheet as of December 28, 2013 has been retrospectively adjusted to reflect these adjustments made as of November 19, 2013 as required by the accounting guidance for business combinations. The valuation process is not complete and the final determination of the fair values may result in further adjustments to the values presented below:

(In thousands)	Initial Valuation	2014 Adjustments to Fair Value	October 4, 2014
Current assets	$790,296	$ (2,866)	$787,430
Property and equipment	369,495	(22,995)	346,500
Goodwill	43,584	(6,962)	36,622
Intangible assets	10,750	17,800	28,550
Other	38,160	—	38,160
Total assets acquired	1,252,285	(15,023)	1,237,262
Current liabilities	353,484	(11,263)	342,221
Other long-term liabilities	81,047	(4,516)	76,531
Long-term debt and capital lease obligations	438,140	756	438,896
Total liabilities assumed	872,671	(15,023)	857,648
Net assets acquired	$379,614	$ —	$379,614

During the second quarter ended July 12, 2014, management of the Company made revisions to the cash flow projections to correct the allocation between certain reporting units related to the valuation analysis completed in 2013. Management has concluded that the purchase accounting effect of the revisions is not material to the consolidated financial statements for any period presented. As a result of the revisions, property and equipment was decreased by $23.0 million, while intangible assets were increased by $19.3 million and goodwill was increased by $3.7 million.

The excess of the purchase price over the fair value of net assets acquired of $36.6 million was preliminarily recorded as goodwill in the condensed consolidated balance sheet and allocated to the Food Distribution segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Nash-Finch. No goodwill is expected to be deductible for tax purposes.

Intangible assets acquired are currently valued as follows:

(In thousands)	Intangible Assets	Useful Life
Trade names	$ 6,700	Indefinite

Customer lists	5,100	7 years
Customer relationships	12,100	20 years
Favorable leases	4,650	7 to 22 years
	$ 28,550	

The following supplemental pro forma financial information presents sales and net earnings as if the Nash-Finch Company was acquired on the first day of the 40-week period ended October 12, 2013. This pro forma information is not necessarily indicative of the results that would have been obtained if the acquisition had occurred at the beginning of the 40-week period presented or that may be obtained in the future.

	October 12, 2013	
(In thousands)	12 Weeks Ended	40 Weeks Ended
Net sales	$1,796,656	$5,928,875
Net earnings from continuing operations	13,799	41,980

Note 4 Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill were as follows:

(In thousands)	Retail	Food Distribution	Total
Balance at December 28, 2013:			
Goodwill	$254,438	$ 131,348	$385,786
Accumulated impairment charges	(86,600)	—	(86,600)
Goodwill, net	167,838	131,348	299,186
Other	(1,834)	—	(1,834)
Balance at October 4, 2014:			
Goodwill	252,604	131,348	383,952
Accumulated impairment charges	(86,600)	—	(86,600)
Goodwill, net	$166,004	$ 131,348	$297,352

The following table reflects the components of amortized intangible assets, included in "Other, net" on the Condensed Consolidated Balance Sheets:

	October 4, 2014		December 28, 2013	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-compete agreements	$2,527	$ 1,732	$4,566	$ 3,427
Favorable leases	8,408	2,601	8,408	2,215
Pharmacy customer script lists	17,223	10,951	17,423	8,946
Customer relationships	12,100	597	12,100	78
Trade names	1,219	408	1,219	233
Franchise fees and other	400	165	370	129
Total	$41,877	$ 16,454	$44,086	$ 15,028

The weighted average amortization period for amortizable intangible assets is as follows:

Non-compete agreements	5.9 years
Favorable leases	16.7 years
Customer lists	7.2 years
Customer relationships	20.0 years
Trade names	7.0 years
Franchise fees and other	10.4 years

Estimated amortization expense for fiscal year 2014 through 2018 is as follows:

(In thousands)	Fiscal Year	Amortization Expense
	2014	$ 3,413
	2015	3,156
	2016	2,622
	2017	2,397
	2018	2,033

Indefinite-lived intangible assets that are not amortized consist primarily of trade names and licenses for the sale of alcoholic beverages which totaled $33.1 million and $33.2 million as of October 4, 2014 and December 28, 2013.

Note 5 Restructuring and Asset Impairment

The following table provides the activity of restructuring costs for the 40 weeks ended October 4, 2014. 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	
Balance at December 28, 2013	$ 19,496	$ 1,035	$ 20,531	
Provision for lease and related ancillary costs, net of sublease income	236	—	236	(a)
Provision for severance	—	306	306	(b)
Changes in estimates	(1,436)	—	(1,436)	(c)
Accretion expense	523	—	523	
Payments	(5,378)	(1,257)	(6,635)	
Balance at October 4, 2014	$ 13,441	$ 84	$ 13,525	

(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 includes $0.1 million related to a distribution center closing in the Food Distribution segment and $0.2 million related to store closings in the Retail segment.

(c) Goodwill was reduced by $1.3 million as a result of certain of these changes in estimates as the initial charges for certain stores were established in the purchase price allocations for previous acquisitions. In addition, Restructuring charges were reduced by $0.1 million for the remainder of the changes in 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.

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

	12 Weeks Ended		40 Weeks Ended	
(In thousands)	October 4, 2014	October 12, 2013	October 4, 2014	October 12, 2013
Asset impairment charges (a)	$ —	$ —	$ 906	$ 2,220
Provision for leases and related ancillary costs, net of sublease income, related to store closings (b)	—	—	236	—
Gains on sales of assets related to stores closed	(1,638)	—	(2,636)	—
Provision for severance (c)	40	—	306	—
Other costs associated with distribution center and store closings	326	—	1,213	—
Changes in estimates (d)	—	—	(92)	—
	$ (1,272)	$ —	$ (67)	$ 2,220

(a) The asset impairment charges were incurred in the Retail segment due to 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 provision for severance related to a distribution center closing in the Food Distribution segment and store closings in the Retail segment.
(d) The majority of 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 and Food Distribution segments realized $(379) and $287, respectively, in the 40 weeks ended October 4, 2014.

Note 6 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 maturities of these financial instruments. At October 4, 2014 and December 28, 2013 the estimated fair value and the book value of our debt instruments were as follows:

(In thousands)	October 4, 2014	December 28, 2013
Book value of debt instruments:		
Current maturities of long-term debt and capital lease obligations	$ 7,349	$ 7,345
Long-term debt and capital lease obligations	549,530	598,319
Total book value of debt instruments	556,879	605,664
Fair value of debt instruments	561,500	609,682
Excess of fair value over book value	$ 4,621	$ 4,018

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 with a book value of $0.9 million and $3.6 million in the 40 week periods ended October 4, 2014 and October 12, 2013, respectively, were measured at a fair value of $0.0 million and $1.4 million, respectively, on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. 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 7 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.

On or about July 24, 2013, a putative class action complaint (the “State Court Action”) was filed in the District Court for the Fourth Judicial District, State of Minnesota, County of Hennepin (the “State Court”), by a stockholder of Nash-Finch Company in connection with the pending merger with Spartan Stores, Inc. The State Court Action was 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 filed a registration statement with the Securities and Exchange Commission containing a preliminary version of the joint proxy statement/prospectus. On September 9, 2013, the defendants filed motions to dismiss the State Court Action. On or about September 19, 2013, a second putative class action complaint (the “Federal Court Action” and, together with the State Court Action, the “Putative Class Actions”) was filed in the United States District Court for the District of Minnesota (the “Federal Court”), by a stockholder of Nash-Finch. The Federal Court Action was styled Benson v. Covington et al., Case No. 0:13-cv-02574.

The Putative Class Actions alleged that the directors of Nash-Finch breached their fiduciary duties by, among other things, approving a merger that provided for inadequate consideration under circumstances involving certain alleged conflicts of interest; that the merger agreement included 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 Putative Class Actions also alleged 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 Federal Court Action also asserted additional claims individually on behalf of the plaintiff under the federal securities laws. The Putative Class Actions sought, 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.

SpartanNash believed that these lawsuits were without merit; however, to eliminate the burden, expense and uncertainties inherent in such litigation, Nash-Finch and Spartan Stores agreed, as part of settlement discussions, to make certain supplemental disclosures in the joint proxy statement/prospectus requested by the Putative Class Actions in the definitive joint proxy statement/prospectus. On October 30, 2013, the defendants entered into the Memorandum of Understanding regarding the settlement of the Putative Class Actions. The Memorandum of Understanding outlined the terms of the parties' agreement in principle to settle and release all claims which were or could have been asserted in the Putative Class Actions. In consideration for such settlement and release, Nash-Finch and Spartan Stores acknowledged that the supplemental disclosures in the joint proxy statement/prospectus were made in response to the Putative Class Actions. The Memorandum of Understanding contemplated that the parties will use their best efforts to agree upon, execute and present to the State Court for approval a stipulation of settlement within thirty days after the later of the date that the Merger is consummated or the date that plaintiffs and their counsel have confirmed the fairness, adequacy, and reasonableness of the settlement, and that upon execution of such stipulation, and as a condition to final approval of the settlement, the plaintiff in the Federal Action would withdraw the claims in and cause to be dismissed the Federal Action, with any individual claims being dismissed with prejudice. The Memorandum of Understanding provided that Nash-Finch would pay, on behalf of all defendants, the plaintiffs' attorneys' fees and expenses, subject to approval by the State Court, in an amount not to exceed $550,000. On February 11, 2014, the parties executed the Stipulation and Agreement Compromise, Settlement and Release (the "Stipulation of Settlement.") to resolve, discharge and settle the Putative Class Actions. The Stipulation of Settlement was subject to customary conditions, including approval by the State Court, which will consider the fairness, reasonableness and adequacy of such settlement. On February 18, 2014, the Federal Court entered a final order dismissing the Federal Court Action with prejudice. On February 28, 2014, pursuant to the terms of the Stipulation of Settlement, the plaintiffs in the State Court Action filed an unopposed motion for preliminary approval of class action settlement, conditional certification of class, and approval of notice to be furnished to the class. On March 7, 2014, the State Court entered an order preliminarily approving the Settlement Stipulation, subject to a hearing, scheduled for May 20, 2014. At the hearing on May 20, 2014, the Settlement Stipulation was approved. On July 21, 2014, the appeals period expired and the matter is now closed.

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. 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.

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 December 28, 2013. 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.

Note 8 Associate Retirement Plans

The following table provides the components of net periodic pension and postretirement benefit costs for the 12 weeks and 40 weeks ended October 4, 2014 and October 12, 2013:

(In thousands)

12 Weeks Ended	Cash Balance Pension Plan		Super Foods Pension Plan
	October 4, 2014	October 12, 2013	October 4, 2014
Interest cost	$ 556	$ 517	$ 461
Expected return on plan assets	(867)	(944)	