SMITH A O CORP
Form DEF 14A
March 07, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a)

Of The Securities Exchange Act Of 1934

(Amendment No.   )

Filed by the registrant x Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

A. O. Smith Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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3) Filing Party:

4) Date Filed:

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P.O. BOX 245009

MILWAUKEE, WI 53224-9509

NOTICE AND PROXY STATEMENT

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

PLEASE TAKE NOTICE that the annual meeting of the stockholders of A. O. SMITH CORPORATION (Company) will be held on Monday, April 9, 2007, at 1:00 P.M., Central Daylight Saving Time, at 500 Tennessee Waltz Parkway, Ashland City, Tennessee, for the following purposes:

(1) To elect six directors chosen by the holders of Class A Common Stock.

(2) To elect three directors chosen by the holders of Common Stock.

(3) To approve the adoption of the A. O. Smith Combined Incentive Compensation Plan and reservation of 1,250,000 shares of Common Stock under the Plan.

(4) To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for 2007.

(5) To transact such other business and act upon such other matters which may properly come before the meeting or any adjournments thereof.

Only holders of record of the Class A Common Stock and the Common Stock of the Company at the close of business on February 28, 2007, will be entitled to notice of and to vote at the meeting. The list of stockholders entitled to vote at the meeting will be available at our offices at 11270 West Park Place, Milwaukee, Wisconsin, as of March 26, 2007, for examination by stockholders for purposes related to the meeting.

YOU ARE INVITED TO ATTEND THE MEETING IN PERSON. IF YOU PLAN TO ATTEND, PLEASE INDICATE ON THE ENCLOSED PROXY. EVEN IF YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE TAKE A FEW MINUTES TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE. IF YOU ARE A SHAREHOLDER OF RECORD (YOUR SHARES ARE IN YOUR NAME), THEN YOU ALSO MAY VOTE YOUR SHARES VIA THE TELEPHONE BY ACCESSING THE TOLL-FREE NUMBER INDICATED ON YOUR PROXY CARD OR VIA THE INTERNET BY ACCESSING THE WEBSITE INDICATED ON YOUR PROXY CARD. IF YOU ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON. STREET NAME HOLDERS MAY ALSO VOTE BY TELEPHONE OR THE INTERNET IF THEIR BANK OR BROKER MAKES THOSE METHODS AVAILABLE, IN WHICH CASE THE BANK OR BROKER WILL ENCLOSE THE INSTRUCTIONS WITH THE PROXY STATEMENT. STREET NAME HOLDERS WHO WISH TO VOTE AT THE MEETING WILL NOT BE PERMITTED TO VOTE IN PERSON AT THE MEETING

UNLESS THEY FIRST OBTAIN A PROXY ISSUED IN THEIR NAME FROM THE BROKER, BANK OR OTHER NOMINEE.

W. David Romoser

Secretary

March 7, 2007

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P.O. BOX 245009

MILWAUKEE, WI 53224-9509

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement is furnished to stockholders of A. O. Smith Corporation (Company) in connection with the solicitation by its Board of Directors of proxies for use at the annual meeting of stockholders of the Company to be held on April 9, 2007, at 1:00 P.M., Central Daylight Saving Time, at 500 Tennessee Waltz Parkway, Ashland City, Tennessee.

The record date for stockholders entitled to notice of and to vote at the meeting is the close of business on February 28, 2007 (the Record Date). As of the Record Date, the Company had issued 8,304,226 shares of Class A Common Stock, par value $5 per share, 8,271,631 shares of which were outstanding and entitled to one (1) vote each for Class A Common Stock directors and other matters. As of the Record Date, the Company had issued 24,245,236 shares of Common Stock, par value $1 per share, 22,454,457 shares of which were outstanding and entitled to one (1) vote each for Common Stock directors and one-tenth ($1/10^{th}$) vote each for other matters.

The Notice of 2007 Annual Meeting of Stockholders, this proxy statement, form of proxy card and the Company s 2006 Annual Report are being mailed on or about March 7, 2007, to each stockholder of the Company at the holder s address of record.

Under the Company s Restated Certificate of Incorporation, as long as the number of outstanding shares of Common Stock is at least 10% of the aggregate number of outstanding shares of Class A Common Stock, the holders of the Class A Common Stock and holders of the Common Stock vote as separate classes in the election of directors. The holders of the Common Stock are entitled to elect, as a class, 25% of the entire Board of Directors of the Company, and the holders of Class A Common Stock are entitled to elect the remainder of the Board. Stockholders are entitled to one (1) vote per share in the election of directors for their class of stock.

A majority of the outstanding shares entitled to vote must be represented in person or by proxy at the meeting in order to constitute a quorum for purposes of holding the annual meeting. The voting by stockholders at the meeting is conducted by the inspectors of election. Abstentions and broker nonvotes, if any, are counted as present in determining whether the quorum requirement is met.

Directors are elected by a plurality of the votes cast, by proxy or in person, with the holders voting as separate classes. A plurality of votes means that the nominees who receive the greatest number of votes cast are elected as directors. Consequently, any shares that are not voted, whether by abstention, broker nonvotes or otherwise, will have no effect on the election of directors.

For all other matters considered at the meeting, both classes of stock vote together as a single class, with the Class A Common Stock entitled to one (1) vote per share and the Common Stock entitled to one-tenth ($1/10^{th}$) vote per share. Each such other matter is approved if a majority of the votes present or represented at the meeting are cast in favor of the matter. On such other matters, an abstention will have the same effect as a no vote but, because shares held by brokers will not be considered entitled to vote on matters as to which the brokers withhold authority, a broker nonvoter will have no effect on the vote.

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The enclosed proxy is solicited by and on behalf of the Board of Directors of the Company. A proxy may be revoked by the person giving it at any time before the exercise thereof by delivering written notice of revocation or a duly executed proxy bearing a later date to the Secretary of the Company or by attending the meeting and voting in person. All valid proxies not revoked will be voted unless marked to abstain. Where a choice is specified on a proxy, the shares represented by such proxy will be voted in accordance with the specifications made. If no instruction is indicated, then the shares will be voted FOR proposals (1) through (4) set forth in the accompanying notice.

The cost of soliciting proxies, including preparing, assembling and mailing the notice of meeting, proxy statement, form of proxy and other soliciting materials, as well as the cost of forwarding such material to the beneficial owners of stock, will be paid by the Company, except for some costs associated with individual stockholders use of the internet or telephone. In addition to solicitation by mail, directors, officers, regular employees of the Company and others may also, but without compensation other than their regular compensation, solicit proxies personally or by telephone or other means of electronic communication. The Company may reimburse brokers and others holding stock in their names or in the names of nominees for their reasonable out-of-pocket expenses in sending proxy material to principals and beneficial owners.

Pursuant to the rules of the Securities and Exchange Commission (SEC), services that deliver the Company s communications to stockholders that hold their stock through a bank, broker or other holder of record may deliver to multiple stockholders sharing the same address a single copy of the Company s 2006 Annual Report and this proxy statement. Upon written or oral request, the Company will promptly deliver a separate copy of the Company s 2006 Annual Report and/or this proxy statement to any stockholder at a shared address to which a single copy of each document was delivered. Stockholders may notify the Company of their requests by calling or writing Craig Watson, Vice President, Investor Relations, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508; (414) 359-4009.

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PRINCIPAL STOCKHOLDERS

The following table shows persons who may be deemed to be beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) of more than 5% of any class of the Company s stock. Unless otherwise noted, the table reflects beneficial ownership as of December 31, 2006.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Class A Common Stock	Smith Investment Company* 11270 West Park Place Milwaukee, WI 53224(1)	8,067,252	97.51%
Common Stock	T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,230,910(2)	9.95%
Common Stock	Smith Investment Company 11270 West Park Place Milwaukee, WI 53224(1)	1,559,076(3)	6.96%
Common Stock	Franklin Resources, Inc. One Franklin Parkway San Mateo, CA 94403-1906	1,221,916(4)	5.45%
Common Stock	The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	1,217,424(5)	5.43%
Common Stock	Goldman Sachs Asset Management, L.P. 32 Old Slip New York, NY 10005	1,175,489(6)	5.25%
Common Stock	Dimensional Fund Advisors Inc. 1299 Ocean Avenue Santa Monica, CA 90401	1,157,428(7)	5.16%

* Throughout the balance of the proxy statement, Smith Investment Company is referred to as SICO.

(1) Arthur O. Smith and Bruce M. Smith are co-filers with SICO on the Schedule 13G that SICO has filed with the Securities and Exchange Commission.

(2) These securities are owned by various individual and institutional investors, including T. Rowe Price Small-Cap Stock Fund, Inc. (which owns 1,745,700 shares, representing 7.79% of the Common Stock outstanding), which T. Rowe Price Associates, Inc. (Price Associates) serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(3) Pursuant to the Company s Restated Certificate of Incorporation, Class A Common Stock is convertible at any time at the option of the holder into Common Stock on a share-for-share basis. For purposes of computing beneficial ownership of SICO s Common Stock, assuming that all Class A Common Stock held by SICO was converted into Common Stock, SICO s beneficial ownership of the Common Stock is 9,626,328 shares, which represents 31.6% of the class of Common Stock.

(4) These securities are beneficially owned by one or more open- or closed-end investment companies or other managed accounts that are investment management clients of investment managers that are direct and indirect subsidiaries of Franklin Resources, Inc. (FRI). Franklin Advisory Services, LLC, an investment management subsidiary of FRI, holds 1,215,300 shares with respect to which it has sole voting power and 1,221,800 shares with respect to which it has sole dispositive power. Franklin Advisers, Inc., an investment management subsidiary of FRI, holds 116 shares with respect to which it has sole voting and sole dispositive power. FRI and its subsidiaries disclaim beneficial ownership of such securities.

(5) The Vanguard Group, Inc. has sole voting power with respect to 22,904 shares and sole dispositive power with respect to 1,217,424 shares.

(6) Goldman Sachs Asset Management, L.P. has sole voting and sole dispositive power with respect to 1,175,489 shares.

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(7) Dimensional Fund Advisors Inc. (Dimensional), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses sole voting power and sole dispositive power with respect to 1,157,428 shares. For purposes of the reporting requirements of the Securities and Exchange Act of 1934, Dimensional may be deemed to be the beneficial owner of the shares held by the Funds. However, Dimensional disclaims beneficial ownership of such securities.

Information on beneficial ownership is based upon Schedules 13D or 13G filed with the Securities and Exchange Commission and any additional information that any beneficial owners may have provided to the Company.

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ELECTION OF DIRECTORS

Nine directors are to be elected to serve until the next succeeding annual meeting of stockholders and thereafter until their respective successors shall be duly elected and qualified. Owners of Class A Common Stock are entitled to elect six directors, and owners of Common Stock are entitled to elect the three remaining directors.

It is intended that proxies hereby solicited will be voted for the election of the nominees named below. Proxies will not be voted for a greater number of persons than the nine nominees named below. All nominees have consented to being named in the proxy statement and to serve if elected. If any nominee for election as a director shall become unavailable to serve as a director, then proxies will be voted for such substitute nominee as the Board of Directors may nominate.

The following information has been furnished to the Company by the respective nominees for director. Each nominee has been principally engaged in the employment indicated for the last five years unless otherwise stated.

NOMINEES CLASS A COMMON STOCK

RONALD D. BROWN Chairman, President and Chief Executive Officer, Milacron Inc.

Mr. Brown, 53, has been a director of the Company since 2001. He is the Chairperson of the Nominating and Governance Committee and a member of the Personnel and Compensation Committee of the Board. Mr. Brown became chairman and chief executive officer of Milacron Inc. in 2001. He previously was president and chief operating officer from 1999 through 2001. He joined Milacron Inc. in 1980. Milacron is a leading global supplier of plastic-processing technologies and industrial fluids. Mr. Brown is a director of Milacron Inc.

WILLIAM F. BUEHLER Retired Vice Chairman of the Board of Directors, Xerox Corporation.

Mr. Buehler, 67, has been a director of the Company since 1998. He is the Chairperson of the Personnel and Compensation Committee and a member of the Nominating and Governance Committee of the Board. Mr. Buehler was vice chairman of the board of directors and president-Industry Solutions Operations of Xerox Corporation from 1999 through 2000. He joined Xerox Corporation in 1991 as executive vice president and chief staff officer. Xerox Corporation develops, manufactures and markets document processing systems and related supplies and provides consulting and outsourcing document management services. Prior to joining Xerox, he spent 27 years with AT&T Corporation.
Mr. Buehler is a director of Quest Diagnostics.

PAUL W. JONES Chairman of the Board and Chief Executive Officer.

Mr. Jones, 58, has been a director of the Company since 2004. He is a member of the Investment Policy Committee of the Board. He was elected chairman of the board, president and chief executive officer effective December 31, 2005. He was president and chief operating officer from January, 2004 through December, 2005. Prior to joining A. O. Smith, he was chairman and chief executive officer of U.S. Can Company, Inc. from 1998 to 2002. He previously was president and chief executive officer of Greenfield Industries, Inc. from 1993 to 1998 and president from 1989 to 1992. Mr. Jones is a director of Bucyrus International, Inc. and Federal Signal Corporation.

BRUCE M. SMITH Chairman of the Board, President and Chief Executive Officer, Smith Investment Company.

Mr. Smith, 58, has been a director of the Company since 1995. He is the Chairperson of the Investment Policy Committee and a member of the Personnel and Compensation Committee of the Board. He was elected chairman and chief executive officer of SICO in 1999, and was elected president of SICO in 1993. SICO is a diversified company which, through its wholly-owned subsidiaries, is involved in multicolor printing and related services and commercial warehousing, trucking and packaging. Mr. Smith is a director of SICO. Mr. Smith is a first cousin of Mr. Mark D. Smith, also a director of the Company. Mr. Roger S. Smith, brother of director Bruce M. Smith, is a long-standing employee of the Company employed in a non-executive capacity as Manager of Corporate Advertising and Public Affairs.

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MARK D. SMITH Business Manager, Strattec Security Corporation.

Mr. Smith, 45, has been a director of the Company since 2001. He is a member of the Audit Committee of the Board. He has served as a product business manager for Strattec Security Corporation since 1997. Strattec Security Corporation designs, develops, manufactures and markets mechanical locks, electro-mechanical locks and related security products for major automotive manufacturers. Mr. Smith is a first cousin of Mr. Bruce M. Smith, also a director of the Company. Mr. Arthur O. Smith, III, brother of director Mark D. Smith, is a long-standing employee of the Company employed in a non-executive capacity as Manager of Business Analysis at A. O. Smith Electrical Products Company.

GENE C. WULF Senior Vice President and Chief Financial Officer, Bemis Company, Inc.

Mr. Wulf, 56, has been a director of the Company since 2003. He is the Chairperson of the Audit Committee of the Board. Mr. Wulf was elected senior vice president and chief financial officer of Bemis Company, Inc. in 2005. He previously was vice president, chief financial officer and treasurer from 2002 through 2005 and was vice president and controller from 1998 through 2002. Bemis Company, Inc. is the largest flexible packaging company in the Americas and a major manufacturer of pressure sensitive materials used in labels, decorating and signage. Mr. Wulf is a director of Bemis Company, Inc.

NOMINEES COMMON STOCK

WILLIAM P. GREUBEL Executive Director and Chairman, Wabash National® Corporation.

Mr. Greubel, 55, has been a director of the Company since October, 2006. He is a member of the Nominating and Governance Committee and the Personnel and Compensation Committee. Mr. Greubel has been executive director and chairman of Wabash National Corporation since 2007. Mr. Greubel was chairman and chief executive officer of Wabash National Corporation in 2006. He joined the company as president and chief executive officer in 2002. Mr. Greubel previously was chief executive officer of Accuride Corporation from 1998 until 2002 and president from 1994 until 1998. Wabash National is one of the leading manufacturers of semi truck trailers in North America, specializing in the design and production of dry freight vans, flatbed trailers, drop deck trailers, and intermodal equipment.

ROBERT J. O TOOLE Retired Chairman of the Board and Chief Executive Officer, A. O. Smith Corporation.

Mr. O Toole, 66, has been a director of the Company since 1986. He is a member of the Investment Policy Committee of the Board. He was chairman of the board from 1992 through 2005 and was chief executive officer from 1989 through 2005. He is a director of Briggs & Stratton Corporation, FM Global and Marshall & Ilsley Corporation.

IDELLE K. WOLF President, Barnes Distribution.

Ms. Wolf, 54, has been a director of the Company since October, 2005. She is a member of the Audit Committee of the Board. Ms. Wolf was appointed president of Barnes Distribution in 2006 and remains vice president of Barnes Group Inc. She previously was president of Barnes Distribution North America from 2004 through 2005. She joined Barnes Group Inc. as vice president and as chief operating officer of Barnes Distribution in 2000. Barnes Distribution is an industry leader in the distribution of maintenance, repair, operating and production supplies.

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GOVERNANCE OF THE COMPANY

The Board of Directors

The business of the Company is managed under the direction of the Board of Directors, who are elected by the stockholders. Directors meet their responsibilities by participating in meetings of the Board of Directors and Board Committees on which they sit, through communication with our Chairman and Chief Executive Officer and other officers and employees, by consulting with the Company s independent registered public accounting firm and other third parties, by reviewing materials provided to them, and by visiting our offices and plants. During 2006, the Board held five regular meetings and two special meetings. The Committees of the Board of Directors held a total of 29 meetings. All directors attended at least 75% of the scheduled Board and Committee meetings.

The non-management directors of the Board met in executive session without management present five times in 2006. The presiding director during the period April, 2006 to April, 2007 has been the Chairperson of the Audit Committee, and for the period April, 2007 to April, 2008 will be the Chairperson of the Personnel and Compensation Committee.

Director Independence and Financial Literacy. A single investor, SICO, currently controls more than 50% of the voting power, and therefore, we are a controlled company under the New York Stock Exchange Rules (NYSE Rules). In this regard, as of December 31, 2006, SICO owned 97.51% of Class A Common Stock and 6.96% of Common Stock and, due to the differing voting rights of each class of stock, to a large extent SICO is in a position to control the outcome of matters requiring a stockholder vote. As a controlled company, under NYSE Rules A. O. Smith may elect to not have a majority of independent directors, nor independent compensation or governance committees.

Notwithstanding its status as a controlled company, the Company is committed to a Board in which a majority of its members consist of independent directors. As described in the Corporate Governance Guidelines available on the Company s website, www.aosmith.com, we apply the NYSE Rules to determine director independence. The Nominating and Governance Committee annually evaluates the independence of each director and makes recommendations to the Board. As part of this process, the Committee reviewed the detailed Directors and Officers Questionnaires completed annually by each director, which require disclosure of any related party transaction. No related party transactions, as defined by SEC Rules, were reported. In making its recommendations, the Committee also applied the NYSE Rules and evaluated any other legal, accounting and family relationships between directors and the Company. In particular, even though it is not a reportable related party transaction under SEC Rules, the Committee considered that the brothers of Bruce M. Smith and Mark D. Smith are long-standing employees of the Company employed in non-executive capacities. The Committee determined that their employment is immaterial and does not affect the independence of either director.

The Board has determined that Messrs. Brown, Buehler, Greubel, Wulf and Mark D. Smith and Ms. Wolf meet the NYSE independence requirements. Messrs. Jones and O Toole are considered management directors by virtue of their current and recent positions as executive officers of the Company. With respect to Mr. Bruce M. Smith, the Board determined that he is a non-management director but not independent due to his executive officer position with SICO, the Company s largest stockholder with a controlling interest in the Company. The Board has elected to exercise the Controlled Company exemption under the NYSE Rules with respect to Mr. Bruce Smith s participation on the Personnel and Compensation Committee. In this regard, the Board determined that Mr. Bruce Smith uniquely represents the best interests of stockholders by virtue of his position with SICO and should continue to serve on this Committee. The Board has not elected to exercise this exemption in any other respect.

The Board recognizes that the NYSE Rules require financial literacy of Audit Committee members only. Notwithstanding that, as a best practice, the Board has reviewed the qualifications and experience of its members and determined that each director is financially literate within the meaning of the NYSE Rules.

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Communications with the Board. Any party wishing to communicate with the presiding director may send correspondence to the Presiding Director, c/o W. David Romoser, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245009, Milwaukee, Wisconsin 53224-9509. Further, those wishing to communicate with individual directors may follow the same procedure. All correspondence should be in a sealed envelope marked Confidential and will be forwarded unopened to the presiding director or other director, as appropriate.

Board Committees

The Board of Directors has delegated some of its authority to Committees of the Board. There are four standing Committees: the Audit Committee, the Personnel and Compensation Committee, the Investment Policy Committee, and the Nominating and Governance Committee.

Audit Committee. The Audit Committee consists of three members who meet the independence and financial literacy requirements of the NYSE and the SEC. The Audit Committee s duties include appointing the firm that will act as the independent registered public accounting firm for the Company. The Audit Committee s duties and responsibilities are set forth in its Charter, which has been approved by the Board of Directors and is available on the Company s website. The Board of Directors has determined that Ms. Wolf and Mr. Wulf qualify as audit committee financial experts as defined by the SEC. The Audit Committee met eleven times during 2006, with seven of those meetings being telephonic. The Report of the Audit Committee is included as part of this proxy statement.

Personnel and Compensation Committee. The Personnel and Compensation Committee is responsible for establishing and administering the Company s compensation and benefit plans for officers, executives and management employees, including the determination of eligibility for participation in such plans. It determines the compensation to be paid to officers and certain other selected executives, and evaluates the performance of the chairman and chief executive officer (CEO) in light of established goals and objectives. As it deems appropriate, the Committee may retain independent consultants to provide recommendations as to executive compensation, and did so in 2006, as discussed in the Compensation Discussion and Analysis. The Committee also directs the Senior Vice President Human Resources and Public Affairs to prepare computations for its consideration, and considers recommendations of the CEO as to compensation of executives other than the CEO. The Committee may, but has not delegated its authority to subcommittees. In 2007, the Committee revised its Charter and, prospectively, will make recommendations regarding CEO compensation for the Board s final determination. The Personnel and Compensation Committee s duties and responsibilities are set forth in its Charter, which has been approved by the Board and is available on the Company s website. The Committee consists of four directors, three of whom are independent and the fourth is a non-management director. The Committee held seven meetings during 2006, with two of the meetings being telephonic. The Personnel and Compensation Committee Report is included as part of this proxy statement.

Investment Policy Committee. The Investment Policy Committee is responsible for investment policy and certain other matters for all qualified Company retirement plans. The responsibilities and duties of the Investment Policy Committee are set forth in its Charter, which has been approved by the Board and is available on the Company s website. The Committee consists of three members. The Investment Policy Committee held six meetings during 2006.

Nominating and Governance Committee. The Nominating and Governance Committee assists the Board in identifying qualified candidates for election as Board members, and establishes and periodically reviews criteria for selection of directors. Further, the Committee provides direction to the Board as to the independence, financial literacy and financial expertise of directors, and the composition of the Board and its Committees. As part of its responsibilities, the Committee is responsible for reviewing and making recommendations to the Board as to director compensation. As described in the discussion following the Director Compensation Table of this Proxy, in 2006 the Committee retained an independent consultant, Towers Perrin, to review its director compensation

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program and to conduct a benchmarking survey. In July, 2006, the Board adopted the Committee s recommendations based on the consultant s report. The Committee also oversees the process to assess Board and committee effectiveness, evaluates potential conflicts of interest, implements corporate governance guidelines and advises the Board on corporate governance matters. The responsibilities and duties of the Nominating and Governance Committee are set forth in its Charter, which has been approved by the Board and is available on the Company s website. The Committee consists of three members, all of whom are independent under the NYSE Rules. The Nominating and Governance Committee met five times during 2006, with one of the meetings being telephonic. The Report of the Nominating and Governance Committee is included as part of this proxy statement.

The Nominating and Governance Committee will consider any candidate recommended by stockholders, directors, officers, third-party search firms and other sources for nomination as a director. The Committee considers the needs of the Board and evaluates each director candidate in light of, among other things, the candidate s qualifications. All candidates minimum qualifications are identified in the Corporate Governance Guidelines and the Criteria for Selecting Board of Director Candidates, both of which can be found on the Company s website by clicking on Governance and then on the specific document. To summarize, all candidates should be independent and possess substantial and significant experience which would be of value to the Company in the performance of the duties of a director. Recommended candidates must be of the highest character and integrity, free of any conflicts of interest, have an inquiring mind and vision, and possess the ability to work collaboratively with others. Each candidate must have the time available to devote to Board activities and be of an age that, if elected, the candidate could serve on the Board for at least five years before reaching the mandatory retirement age, which is 70. Finally, the Company believes it appropriate for certain key members of the Company s management to participate as members of the Board, while recognizing that a majority of independent directors must be maintained at all times. All candidates will be reviewed in the same manner, regardless of the source of the recommendation.

A stockholder recommendation of a director candidate must be received no later than the date for submission of stockholder proposals. Please see the section of this proxy entitled Date for Stockholder Proposals. The recommendation letter should be sent by mail to the Chairperson, Nominating and Governance Committee, c/o W. David Romoser, Corporate Secretary, A. O. Smith Corporation, 11270 West Park Place, P.O. Box 245009, Milwaukee, Wisconsin 53224-9509.

The recommendation letter must, at a minimum, provide the stockholder s name; address; the number and class of shares owned; the candidate s biographical information, including name, residential and business address, telephone number, age, education, accomplishments, employment history (including positions held and current position), and current and former directorships; and the stockholder s opinion as to whether the stockholder recommended candidate meets the definitions of independent and financially literate under the NYSE Rules. In addition, the recommendation letter must provide the information that would be required to be disclosed in the solicitation of proxies for election of directors under federal securities laws. The stockholder must include the candidate s statement that he/she meets these requirements and those identified on the Company s website; is willing to promptly complete the Questionnaire required of all officers, directors and candidates for nomination to the Board; will provide such other information as the Committee may reasonably request; and consents to serve on the Board if elected.

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STOCK OWNERSHIP

Security Ownership of Directors and Management

The following table shows, as of December 31, 2006, the Class A Common Stock and Common Stock of the Company and Common Stock options exercisable on or before March 1, 2007, beneficially owned by each director, each nominee for director, each named executive officer in the Summary Compensation Table and by all directors and executive officers as a group.

Name	Common Stock**(1)	Phantom Stock Units	Options Exercisable Within 60 Days	Percent of Class
Ronald D. Brown	4,458	0	0	*
William F. Buehler	6,045	0	0	*
William P. Greubel	0	739	0	*
Paul W. Jones	45,800(2)	33,000	71,300	*
Christopher L. Mapes	10,582(2)	8,100	34,233	*
Ronald E. Massa	27,606(2)	8,100	157,866	*
Terry M. Murphy	0	21,000	0	*
Robert J. O Toole	331,146(2)	33,000	434,100	3.56%
Ajita G. Rajendra	15,000(2)	8,100	30,233	*
Bruce M. Smith(3)	2,649(4)	2,978	0	*
Mark D. Smith(3)	3,883	0	0	*
Idelle K. Wolf	1,381	0	0	*
Gene C. Wulf	2,826(5)	0	0	*
All 20 Directors, Nominees and Executive Officers as a Group(3)	568,860(2)	140,517	1,168,565	8.38%

** None of the directors, nominees and executive officers have beneficial ownership of Class A Common Stock (see footnote 5 below).

* Represents less than one percent.

(1) Except as otherwise noted, all securities are held with sole voting and sole dispositive power.

(2) Included in the beneficially owned shares are restricted stock awards: Mr. Jones 28,134; Mr. Rajendra 10,000; Mr. Massa 9,000; Mr. Mapes 4,000; Mr. O Toole 37,600; and all directors and executive officers as a group 117,905.

(3) Excludes shares beneficially owned by SICO.

(4) Included in this total are 2,649 shares that have been deferred.

(5) Not included in this total are 50 shares held by Mr. Wulf s son. Mr. Wulf disclaims beneficial ownership of these securities.

Compliance with Section 16(a) of the

Securities Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than ten percent of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Executive officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) Forms 3, 4 and 5 which they file.

Based solely on its review of the copies of such forms received by the Company and written representations from certain reporting persons during fiscal year 2006, the Company believes that all filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were met.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy

We believe that effective executive compensation programs are critical to our long-term success. By having an executive compensation package that is competitive with the marketplace and focused on driving sustained superior performance, these programs align the interests of executives with the interests of shareholders and reward executives for successfully improving shareholder returns. We have developed compensation programs with the following objectives:

- attracting and retaining world-class executives through a total compensation opportunity that is competitive within our industry as well as the various markets in which we compete for talent.

- encouraging a pay-for-performance mentality by directly relating variable compensation elements to the achievement of financial and strategic objectives. Incentive plans are designed to recognize and reward accomplishment of individual objectives as well as Company goals.

- promoting a direct relationship between executive compensation and our shareholders. Our long-term incentive opportunities link a significant portion of executive compensation to our Company s performance through restricted stock units and stock option awards. Executive officers also are expected to comply with established stock ownership guidelines which require acquisition and retention of specific levels of the Company s Common Stock.

We believe total compensation opportunity sh">890 823

Depreciation and amortization

9,015 8,359

LIFO expense

790 658

Postretirement benefits (income)/expense

(52) 301

Deferred taxes on income

3,862 4,576

Stock-based compensation expense

1,366 1,721

Excess tax benefit on stock compensation	(199)	(84)
Other	24	18
Change in operating assets and liabilities:		
Accounts receivable	(2,663)	(5,953)
Inventories	(33,447)	(29,320)
Prepaid expenses and other assets	(4,792)	(2,792)
Accounts payable	20,009	31,377
Accrued payroll and benefits	(8,069)	(8,248)
Postretirement benefits payments	(122)	(79)
Other accrued expenses and other liabilities	(11,876)	(770)
Net cash (used in) / provided by operating activities	(19,188)	6,722

Cash flows from investing activities

Purchases of property and equipment

(6,544) (9,668)

Net proceeds from the sale of assets

23

Other

(52) (739)

Net cash (used in) investing activities

(6,596) (10,384)

Cash flows from financing activities

Proceeds from revolving credit facility

63,283 333

Payments on revolving credit facility

(43,393) (333)

Share Repurchase

(10,855)

Repayment of other long-term borrowings

(893) (1,015)

Financing Fees Paid

(1,260)

Excess tax benefit on stock compensation

199 84

Proceeds from exercise of stock options

64 164

Dividends paid

(1,680) (1,484)

Net cash provided by / (used in) in financing activities

5,465 (2,251)

Cash flows from discontinued operations

Net cash (used in) operating activities

(64) (198)

Net cash (used in) discontinued operations

(64) (198)

Net decrease in cash and cash equivalents	(20,383)	(6,111)
Cash and cash equivalents at beginning of period	26,476	43,824
Cash and cash equivalents at end of period	$6,093	$37,713

See accompanying notes to condensed consolidated financial statements.

SPARTAN STORES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation and Significant Accounting Policies

Note 1

Basis of Presentation and Significant Accounting Policies

The accompanying unaudited Condensed Consolidated 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 condensed consolidated 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 June 23, 2012, 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.

Restructuring, Asset Impairment and Other

Note 2

Restructuring, Asset Impairment and Other

The following table provides the activity of restructuring costs for the 12 weeks ended June 23, 2012. Restructuring costs recorded in the Consolidated Balance Sheets are included in Current portion of restructuring costs in Current liabilities and Restructuring costs in Long-term liabilities based on when the obligations are expected to be paid.

(In thousands)	
Balance at March 31, 2012	$ 11,102
Changes in estimates	(158)
Payments, net of interest accretion	(289)
Balance at June 23, 2012	$ 10,655

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.

Fair Value Measurements

Note 3

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 June 23, 2012 and March 31, 2012 the estimated fair value and the book value of our debt instruments were as follows:

(In thousands)	**June 23, 2012**	**March 31, 2012**
Book value of debt instruments:		
Current maturities of long-term debt and capital lease obligations	$ 4,328	$ 4,449
Long-term debt and capital lease obligations	156,397	133,565
Equity component of convertible debt	7,994	8,884
Total book value of debt instruments	168,719	146,898
Fair value of debt instruments	167,810	144,374
Excess of book value over fair value	$ 909	$ 2,524

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.

Derivative Instruments

Note 4

Derivative Instruments

Spartan Stores has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate risk exposure when appropriate, based on market conditions. Spartan Stores objective in managing exposure to changes in interest rates is to reduce fluctuations in earnings and cash flows, and consequently, from time to time Spartan Stores uses interest rate swap agreements to manage this risk. Spartan Stores does not use financial instruments or derivatives for any trading or other speculative purposes.

On January 2, 2009, Spartan Stores entered into an interest rate swap agreement. The interest rate swap was considered to be a cash flow hedge of interest payments on $45.0 million of borrowings under Spartan Stores senior secured revolving credit facility by effectively converting a portion of the variable rate debt to a fixed rate basis. Under the terms of the agreement, Spartan Stores has agreed to pay the counterparty a fixed interest rate of 3.33% and the counterparty has agreed to pay Spartan Stores a floating interest rate based upon the 1-month LIBOR plus 1.25% on a notional amount of $45 million. The interest rate swap agreement was to expire concurrently with its senior secured revolving credit facility on December 24, 2012. However, the swap agreement was terminated in the third quarter of fiscal 2012.

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness are recognized in current earnings.

The following table provides a summary of the financial statement effect of the derivative financial instrument designated as an interest rate cash flow hedge for the first quarter ended June 23, 2012 and June 18, 2011:

(In thousands)

	Location in Consolidated Financial Statements	**12 Weeks Ended June 23, 2012**	**12 Weeks Ended June 18, 2011**
Loss, net of taxes, recognized in other comprehensive income	Accumulated Other Comprehensive Loss	$	$ 68
Pre-tax loss reclassified from accumulated other comprehensive loss	Interest expense		141

Commitments and Contingencies

Note 5

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 adverse effect on the consolidated financial position, operating results or liquidity of Spartan Stores.

Spartan Stores contributes to the 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

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 increase each year. Spartan believes that funding levels have not changed significantly since year-end. To reduce this under funding we expect meaningful increases in expense as a result of required incremental multi-employer pension plan contributions over the years. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably determined.

On September 15, 2011 Spartan Stores agreed to extend the terms of its existing contract with General Teamsters Union Local 406 until October 8, 2012 and to continue contributions to the Central States Fund under the terms outlined in the Primary Schedule of Central States Rehabilitation Plan. This schedule requires an increase in employer contributions of 6% over the previous year s contribution.

Associate Retirement Plans

Note 6

Associate Retirement Plans

The following table provides the components of net periodic pension and postretirement benefit costs for the first quarter ended June 23, 2012 and June 18, 2011:

(In thousands)

12 Weeks Ended	Pension Benefits		SERP Benefits		Postretirement Benefits	
	June 23, 2012	June 18, 2011	June 23, 2012	June 18, 2011	June 23, 2012	June 18, 2011
Service cost	$	$	$	$	$ 45	$ 44
Interest cost	597	668	10	12	93	98
Expected return on plan assets	(1,038)	(942)				
Amortization of prior service cost					(13)	(12)
Recognized actuarial net loss	295	382	7	9	32	30
Net periodic benefit cost (benefit)	$ (146)	$ 108	$ 17	$ 21	$ 157	$ 160

As of June 23, 2012, no contributions have been made. Spartan Stores will assess the prudence of making voluntary contributions to the plan during the third quarter of fiscal 2013. Contribution payments of approximately $1.0 million are required to be made in fiscal 2013 to meet the minimum pension funding requirements.

Effective January 1, 2011, the Cash Balance Pension Plan was frozen and, as a result, additional service credits are no longer added to each Associate s account, however, interest credits will continue to accrue. Effective the same date, Company matching contributions to the Savings Plus 401k Plan were reinstated at a rate of 50% of pay deferral contributions up to 6% of each Associate s qualified compensation. Additionally, a provision allowing for a discretionary annual profit sharing contribution was added to the Company s 401k Plan.

As previously stated in Note 5, 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 Store s employer contributions during the last plan year totaled $8.2 million, which Fund administrators represent as less than 5% of total employer contributions to the Fund.

Taxes on Income

Note 7

Taxes on Income

The effective tax rate is 29.4% and 43.3% for the first quarter and prior year first quarter, respectively. The difference from the statutory rate is the result of changes to the state of Michigan tax laws. The first quarter of fiscal 2013 includes a $0.6 million net after-tax benefit and the first quarter of fiscal 2012 includes a net after-tax charge of $0.5 million. Excluding these items the effective tax rate was 37.5% and 38.5% for fiscal 2013 and fiscal 2012 respectively.

Stock-Based Compensation

Note 8

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 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 $0.8 million ($0.04 per diluted share) and $0.7 million ($0.03 per diluted share) in the first quarter of fiscal 2013 and 2012, respectively, as a component of Operating expenses and Income taxes in the Consolidated Statements of Earnings.

The following table summarizes activity in the share-based compensation plans for the first quarter ended June 23, 2012:

	Shares Under Options	Weighted Average Exercise Price	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
Outstanding at March 31, 2012	703,129	$ 18.43	580,893	$ 16.48
Granted			213,900	17.79
Exercised/Vested	(5,500)	8.07	(216,610)	17.48
Cancelled/Forfeited	(7,425)	9.18	(11,817)	16.56
Outstanding at June 23, 2012	690,204	$ 18.62	566,366	$ 16.59
Vested and expected to vest in the future at June 23, 2012	688,741	$ 18.63		
Exercisable at June 23, 2012	654,966	$ 18.87		

There were no stock options granted during the first quarter ended June 23, 2012 and June 18, 2011.

Due to certain events that are considered unusual and/or infrequent in nature, and that resulted in significant business changes during the limited historical exercise period, management does not believe that Spartan Stores historical

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exercise data will provide a reasonable basis upon which to estimate the expected term of stock options. Therefore, the expected term of stock options granted is determined using the simplified method as described in SEC Staff Accounting Bulletins that uses the following formula: ((vesting term + original contract term)/2).

As of June 23, 2012, total unrecognized compensation cost related to nonvested share-based awards granted under our stock incentive plans was $0.1 million for stock options and $8.5 million for restricted stock. The remaining compensation costs not yet recognized are expected to be recognized over a weighted average period of 0.8 years for stock options and 2.8 years for restricted stock.

Discontinued Operations

Note 9

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.

Supplemental Cash Flow Information

Note 10

Supplemental Cash Flow Information

Non-cash financing activities include the issuance of restricted stock to employees and directors of $3.8 million and $3.6 million for the first quarters ended June 23, 2012 and June 18, 2011, respectively. Non-cash investing activities include capital expenditures recorded in current liabilities of $4.0 million and $2.4 million for the first quarters ended June 23, 2012 and June 18, 2011, respectively.

Operating Segment Information

Note 11

Operating Segment Information

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

(In thousands)	Distribution	Retail	Total
12 Weeks Ended June 23, 2012			
Net sales	$ 258,348	$ 345,564	$ 603,912
Inter-segment sales	149,624		149,624
Depreciation and amortization	1,959	6,711	8,670
Operating earnings	7,822	3,891	11,713
Capital expenditures	1,430	5,114	6,544
12 Weeks Ended June 18, 2011			
Net sales	$ 257,129	$ 345,435	$ 602,564
Inter-segment sales	150,437		150,437
Depreciation and amortization	1,913	6,454	8,367

Operating earnings	7,402	6,594	13,996
Capital expenditures	1,906	7,762	9,668

	June 23, 2012	March 31, 2012
Total assets		
Distribution	$ 273,877	$ 216,873
Retail	505,027	541,110
Discontinued operations	5,442	5,490
Total	$ 784,346	$ 763,473

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

	12 Weeks Ended			
(Dollars in thousands)	June 23, 2012		June 18, 2011	
Non-perishables [(1)]	$ 292,697	49%	$ 292,977	49%
Perishables [(2)]	219,656	36	218,205	36
Pharmacy	49,761	8	49,710	8
Fuel	41,799	7	41,672	7
Consolidated net sales	$ 603,912	100%	$ 602,564	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.

Company-Owned Life Insurance

Note 12

Company-Owned Life Insurance

During the first quarter of fiscal 2011 the Company purchased variable universal life insurance policies on certain key associates. The company-owned policies have annual premium payments of $0.8 million which were recorded in the first and fourth quarter of fiscal 2012. The net cash surrender value of approximately $2.4 million at June 23, 2012, is recorded on the balance sheet in Other 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 and Indiana.

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 375 independently owned grocery locations and our 97 corporate owned stores. Our Retail segment operates 97 retail supermarkets in Michigan under the banners *D&W Fresh Markets, Family Fare Supermarkets*, *Glen s Markets, VG s Food and Pharmacy and Valu Land.* In addition our retail segment operates 29 fuel centers/convenience stores, generally adjacent to our supermarket locations. Our retail supermarkets have a neighborhood market focus to distinguish them from supercenters and limited assortment stores.

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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. However, fiscal year 2012 included a 53rd week in the fourth quarter.

Results of Operations

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

(Unaudited)

	Percentage of Net Sales		Percentage Change
	June 23, 2012	June 18, 2011	Fiscal 2013 / Fiscal 2012
Net sales	100.0	100.0	0.2
Gross margin	20.2	20.8	(2.9)
Selling, general and administrative expenses	18.2	18.5	(1.6)
Operating earnings	1.9	2.3	(16.3)
Other income and expenses	0.5	0.5	(2.0)
Earnings before income taxes and discontinued operations	1.4	1.8	(20.5)
Income taxes	0.4	0.8	(46.1)
Earnings from continuing operations	1.0	1.0	(1.0)
Earnings from discontinued operations, net of taxes	0.0	0.0	*
Net earnings	1.0	1.0	(0.4)

* Percentage change is not meaningful

Net Sales Net sales for the quarter ended June 23, 2012 (first quarter) increased $1.3 million, or 0.2%, from $602.6 million in the quarter ended June 18, 2011 (prior year first quarter) to $603.9 million.

Net sales for the first quarter in our Retail segment increased $0.2 million, or 0.04%, from $345.4 million in the prior year first quarter to $345.6 million. The first quarter increase was primarily due to an increase in fuel center sales of $0.7 million and comparable store sales, excluding fuel, increase of 0.1% partially offset by non-comparable store sales.

The comparable store sales increase of 0.1% was due to the company s capital plan and the YES Rewards promotional campaign, as well as, a favorable calendar shift as an additional week of stronger summer season sales replaces a weaker spring sales week. We define a retail store as comparable when it is in operation for 14 periods (a period equals four weeks), and we include remodeled, expanded and relocated stores in comparable stores.

Net sales for the first quarter in our Distribution segment increased $1.2 million, or 0.5%, from $257.1 million in the prior year first quarter to $258.3 million. The first quarter increase was primarily due to new distribution customer business and pharmacy sales growth partially offset by lower sales to existing independent customers.

Gross Margin Gross margin represents sales less cost of sales, which include purchase costs and promotional 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 margin for the first quarter decreased $3.6 million, or 2.9%, from $125.3 million in the prior year first quarter to $121.7 million. As a percent of net sales, gross margin for the first quarter decreased to 20.2% from 20.8%. The decrease in gross margin rate was due to a lower margin in both business segments due to reduced inflation-driven inventory gains, the launch of the Company s Yes Is More promotional campaign in the retail segment and market conditions in certain fresh departments, as well as, grand opening promotional expenses.

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 first quarter decreased $1.3 million, or 1.2%, from $111.3 million in the prior year first quarter to $110.0 million. As a percent of net sales, SG&A expenses were 18.2% for the first quarter compared to 18.5% in the prior year first quarter.

The net decrease in first quarter SG&A expenses was primarily due to the following:

- Decreased incentive compensation expense of $1.0 million.
- Decreases in store labor of $0.3 million.
- Decreases in occupancy costs of $0.3 million.
- Decreases in warehousing costs of 0.4 million
- Increased depreciation and amortization of $0.3 million.
- Increase in supplies and marketing expenses of 0.7 million.
- Decreases in various other expenses due to continuing focus on containing costs.

Restructuring, Asset Impairment and Other There were no first quarter charges in either year relating to Restructuring, Asset Impairment and Other.

Interest Expense Interest expense was comparable to the prior year first quarter at $3.2 million.

Income Taxes The effective tax rate is 29.4% and 43.3% for the first quarter and prior year first quarter, respectively. The difference from the statutory rate is the result of changes to the State of Michigan s tax laws. The first quarter of fiscal 2013 includes a $0.6 million net after-tax benefit and the first quarter of fiscal 2012 includes a net after-tax charge of $0.5 million. Excluding these items the effective tax rate was 37.5% and 38.5% for fiscal 2013 and fiscal 2012 respectively.

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 unusual items that do not reflect the ongoing operating activities of the Company and costs associated with the closing of operational locations, interest expense and the provision for income taxes.

We believe that Adjusted EBITDA provides a meaningful representation of our operating performance for the Company 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 quarters ended June 23, 2012 and June 18, 2011.

	Year-to-Date	
(In thousands)	June 23, 2012	June 18, 2011
Net earnings	$ 6,003	$ 6,029
Add:		
Discontinued operations	73	106
Income taxes	2,529	4,689
Interest expense	3,156	3,242
Non-operating expense	(48)	(70)
Operating earnings	11,713	13,996
Add (Subtract):		
Depreciation and amortization	8,670	8,367
LIFO (income) expense	790	658
Non-cash stock compensation and other	1,469	1,550
Adjusted EBITDA	$ 22,642	$ 24,571
Reconciliation of operating earnings to adjusted EBITDA by segment:		
Retail:		
Operating earnings	$ 3,891	$ 6,594
Add (Subtract):		
Depreciation and amortization	6,711	6,454
LIFO expense	424	438
Non-cash stock compensation and other	770	772
Adjusted EBITDA	$ 11,796	$ 14,258
Distribution:		
Operating earnings	$ 7,822	$ 7,402
Add (Subtract):		
Depreciation and amortization	1,959	1,913

LIFO (income) expense	366	220
Non-cash stock compensation and other	699	778
Adjusted EBITDA	$ 10,846	$ 10,313

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 first quarter and prior year first quarter:

(In thousands)	**June 23, 2012**	**June 18, 2011**
Net cash (used in) / provided by operating activities	$ (19,188)	$ 6,722
Net cash (used in) investing activities	(6,596)	(10,384)
Net cash provided by / (used in) financing activities	5,465	(2,251)
Net cash (used in) discontinued operations	(64)	(198)
Net decrease in cash and cash equivalents	(20,383)	(6,111)
Cash and cash equivalents at beginning of year	26,476	43,824
Cash and cash equivalents at end of period	$ 6,093	$ 37,713

Net cash used in/provided by operating activities decreased from the prior year first quarter period primarily due to the timing of seasonal working capital requirements given the current fiscal years quarter end is one week closer to the 4th of July holiday, $9.8 million tax payment related to the previously mentioned tax law change and $5.0 million in advanced payments to customers under new supply agreements in the quarter. The $9.8 million in tax payments is related to the timing of tax basis income recognition and will reverse over the reminder of fiscal 2013.

Net cash used in investing activities decreased during the first quarter primarily due to capital expenditures which decreased $3.1 million to $6.5 million as a result of timing of payments. Of this amount, our Retail and Distribution segments utilized 78.1% and 21.9%, respectively. Expenditures during the current fiscal year were primarily related to one new store, one store relocation and two store remodels. We expect capital and real estate development expenditures to range from $42.0 million to $44.0 million for fiscal 2013.

Net cash provided by/used in financing activities includes cash paid and received related to our long-term borrowings, dividends paid, tax benefits of stock compensation, stock repurchases and proceeds from the issuance of common stock. Net payments on long-term borrowings were $0.9 million in the first quarter each year. The company repurchased approximately 604,000 shares of its common stock in the first quarter of Fiscal 2013 for a total expenditure of $10.9 million. Cash dividends of $1.7 million were paid in the first quarter versus $1.5 million in the prior year. This increase was due to a 23% increase in dividends from $0.065 per share to $0.08 per share that was approved by the Board of Directors and announced on May 15, 2012. 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 and profitability and compliance with the terms of our credit facilities. Our current maturities of long-term debt and capital lease obligations at June 23, 2012 are $4.3 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 store asset impairment costs, insurance run-off claims and other liabilities offset by the proceeds from the sale of assets and sublease income.

Our principal sources of liquidity are cash flows generated from operations and our senior secured revolving credit facility. Interest on our convertible senior notes is payable on May 15 and November 15 of each year. The revolving credit facility matures December 2017, and is secured by substantially all of our assets. As of June 23, 2012, our senior secured revolving credit facility had outstanding borrowings of $19.9 million and additional available borrowings of $158.3 million, which exceeds the minimum excess availability levels, as defined in the credit agreement. 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 debt service obligations for the foreseeable future. However, there can be no assurance that Spartan Stores 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.

On January 9, 2012 Spartan Stores announced the early termination of its interest rate swap agreement. The Company repaid the balance on its credit facility and swap termination fee from available cash.

Our current ratio increased to 1.20:1.00 at June 23, 2012 from 1.13:1.00 at March 31, 2012 and our investment in working capital increased to $37.4 million at June 23, 2012 from $24.7 million at March 31, 2012 principally due to seasonality.

Our total net long-term debt (including current maturities and capital lease obligations net of cash and cash equivalents) to total capital ratio at June 23, 2012 was 0.33:1.00 versus 0.26:1.00 at March 31, 2012 and our debt to capital ratio for the same periods was 0.34:1.00 and 0.30:1.00, respectively. 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 June 23, 2012 and March 31, 2012.

(In thousands)	June 23, 2012	March 31, 2012
Current maturities of long-term debt and capital lease obligations	$ 4,328	$ 4,449
Long-term debt and capital lease obligations	156,397	133,565
Total Debt	160,725	138,014
Cash and cash equivalents	(6,093)	(26,476)
Total net long-term debt	$ 154,632	$ 111,538

For information on contractual obligations, see our Annual Report on Form 10-K for the fiscal year ended March 31, 2012. At June 23, 2012, there have been no material changes to our significant contractual obligations outside the ordinary course of business.

Indebtedness and Liabilities of Subsidiaries

On May 30, 2007, the Company sold $110 million aggregate principal amount of 3.375% Convertible Senior Notes due 2027 (the Notes). The Notes are general unsecured obligations and rank equally in right of payment with all of the Company s other existing and future obligations that are unsecured and unsubordinated. Because the Notes are unsecured, they are structurally subordinated to our subsidiaries existing and future

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indebtedness and other liabilities and any preferred equity issued by our subsidiaries. We rely in part on distributions and advances from our subsidiaries in order to meet our payment obligations under the notes and our other obligations. The Notes are not guaranteed by our subsidiaries. Many of our subsidiaries serve as guarantors with respect to our existing credit facility. Creditors of each of our subsidiaries, including trade creditors, and preferred equity holders, generally have priority with respect to the assets and earnings of the subsidiary over the claims of our creditors, including holders of the Notes. The Notes, therefore, are effectively subordinated to the claims of creditors, including trade creditors, judgment creditors and equity holders of our subsidiaries. In addition, our rights and the rights of our creditors, including the holders of the notes, to participate in the assets of a subsidiary during its liquidation or reorganization are effectively subordinated to all existing and future liabilities and preferred equity of that subsidiary. The Notes are effectively subordinated to our existing and future secured indebtedness to the extent of the assets securing such indebtedness and to existing and future indebtedness and other liabilities of our subsidiaries (including subsidiary guarantees of our senior credit facility).

The following table shows the indebtedness and other liabilities of our subsidiaries as of June 23, 2012:

Spartan Stores Subsidiaries Only

(In thousands)

	June 23, 2012
Current Liabilities	
Accounts payable	$ 127,503
Accrued payroll and benefits	29,657
Other accrued expenses	18,149
Current portion of restructuring costs	3,340
Current maturities of long-term debt and capital lease obligations	4,328
Total current liabilities	182,977
Long-term Liabilities	
Postretirement benefits	12,682
Other long-term liabilities	14,007
Restructuring costs	7,315
Long-term debt and capital lease obligations	46,761
Total long-term liabilities	80,765
Total Subsidiary Liabilities	263,742
Operating Leases	120,230
Total Subsidiary Liabilities and Operating Leases	$ 383,972

Ratio of Earnings to Fixed Charges

Our ratio of earnings to fixed charges was 2.49:1.00 and 2.88:1.00 for the first quarter and prior year first quarter, respectively. For purposes of calculating the ratio of earnings to fixed charges, earnings consist of pretax earnings from continuing operations plus fixed charges (excluding capitalized interest). Fixed charges consist of interest costs, whether expensed or capitalized, the interest component of rental expense and amortization of debt issue costs, whether expensed or capitalized.

Off-Balance Sheet Arrangements

We had letters of credit totaling $0.6 million outstanding and unused at June 23, 2012. 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 31, 2012.

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 31, 2012.

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 June 23, 2012 (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 last fiscal 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding the Company s purchases of its own common stock during the first quarter. On May 17, 2011, the Board of Directors authorized a five-year share repurchase program for up to $50 million of the Company s common stock. The Company repurchased 604,408 shares of common stock under this program during the quarter ended June 23, 2012. All transactions reported below are with associates under stock compensation plans. These may include: (1) shares of Spartan Stores, Inc. common stock delivered in satisfaction of the exercise price and/or tax withholding obligations by holders of employee stock options who exercised options, and (2) shares submitted for cancellation to satisfy tax withholding obligations that occur upon the vesting of the restricted shares. The value of the shares delivered or withheld is determined by the applicable stock compensation plan.

Spartan Stores, Inc. Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs or Plans	Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (In thousands)
April 1 April 28, 2012				
Employee Transactions		$		
Repurchase Program (1)	412,900	$ 17.94	412,900	$ 30,228
April 29 May 26, 2012				
Employee Transactions	55,814	$ 17.83		
Repurchase Program (1)	141,508	$ 18.04	141,508	$ 27,675
May 27 June 23, 2012				
Employee Transactions		$		
Repurchase Program (1)	50,000	$ 17.61	50,000	$ 26.794
Total for First Quarter ended June 23, 2012	660,222	$ 17.93	604,408	$ 26,794

(1) On May 17, 2011 the Board of Directors authorized a stock repurchase plan of up to $50 million. The plan expires on May 18, 2016.

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ITEM 6. Exhibits

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

Exhibit Number	Document
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.
10.1	Amendment No. 11 to Loan and Security Agreement dated June 8, 2012 between Spartan Stores, Inc. and its subsidiaries and Wells Fargo Capital Finance, LLC, Bank of America, N.A., PNC Bank National Association, Fifth Third Bank and US Bank National Association. Previously filed as an exhibit to Spartan Stores Current Report on Form 8-K filed June 13, 2012. Here incorporated by reference.
10.2	Form of restricted stock award to executive officers.
10.3	Form of restricted stock award to non-executive Directors.
10.4	Form of fiscal 2013 Incentive Award under the Spartan Stores, Inc. Executive Cash Incentive Plan of 2010.
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*

* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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: August 2, 2012	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)

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EXHIBIT INDEX

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