SPARTAN STORES INC
Form 10-KT
March 12, 2014

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

¨ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the fiscal year ended December 28, 2013.**

**OR**

x **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from March 31, 2013 to December 28, 2013.**

**Commission File Number: 000-31127**

# SPARTAN STORES, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Michigan** | **38-0593940** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **850 76th Street, S.W.** | |
| **P.O. Box 8700** | |
| **Grand Rapids, Michigan** | **49518-8700** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (616) 878-2000**

**Securities registered pursuant to Section 12(b) of the Securities Exchange Act:**

| Title of Class | Name of Exchange on which Registered |
|---|---|
| Common Stock, no par value | NASDAQ Global Select Market |

**Securities registered pursuant to Section 12(g) of the Securities Exchange Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 a check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File requirement to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Securities 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 Exchange Act). Yes ¨ No x

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates based on the last sales price of such stock on the NASDAQ Global Select Market on September 13, 2013 (which was the last trading day of the registrant s second quarter in the transition period ended December 28, 2013) was $448,903,949.

The number of shares outstanding of the registrant s Common Stock, no par value, as of March 7, 2014 was 37,720,745, all of one class.

**DOCUMENTS INCORPORATED BY REFERENCE**

| | |
|---|---|
| Part III, Items 10, 11, 12, 13 and 14 | Proxy Statement for Annual Meeting to be held May 28, 2014 |

**Forward-Looking Statements**

The matters discussed in this Annual Report on Form 10-K include forward-looking statements about the plans, strategies, objectives, goals or expectations of Spartan Stores, Inc. These forward-looking statements are identifiable by words or phrases indicating that Spartan Stores or management expects, anticipates, plans, believes, estimates, intends, or is optimistic or confident that a particular occurrence or eve could, should or will likely result, occur or be pursued or continue in the future, that the outlook or trend is toward a particular result or occurrence, that a development is an opportunity, priority, strategy, focus, that the Company is positioned for a particular result, or similarly stated expectations. Accounting estimates, such as those described under the heading Critical Accounting Policies in Item 7 of this Annual Report on Form 10-K, are inherently forward-looking. Our asset impairment and exit cost provisions are estimates and actual costs may be more or less than these estimates and differences may be material. The purchase price allocations for the merger with Nash-Finch Company is preliminary and completion of the valuation process to determine fair values of assets acquired and liabilities assumed may result in adjustments. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report.

In addition to other risks and uncertainties described in connection with the forward-looking statements contained in this Annual Report on Form 10-K 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; maintain and strengthen our retail-store performance; assimilate acquired distribution centers and stores; maintain or grow sales; respond successfully to competitors including new openings; maintain gross margin; effectively address food cost or price inflation or deflation; maintain and improve customer and supplier relationships; realize expected synergies from merger and 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 Annual 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, 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 madated reductions in or sequestration of government expenditures, and other factors including, but not limited to, those discussed in the Risk Factors discussion in Item 1A of this Annual Report.

This section and the discussions contained in Item 1A, Risk Factors, and in Item 7, subheading Critical Accounting Policies in this report, both of which are incorporated here by reference, are intended to provide meaningful cautionary statements for purposes of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This should not be construed as a complete list of all of the economic, competitive, governmental, technological and other factors that could adversely affect our expected consolidated financial position, results of operations or liquidity. Additional risks and uncertainties not currently known to Spartan Stores or that Spartan Stores currently believes are immaterial also may impair our 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 Annual Report.

## PART I

### Item 1. Business

***Overview***

Spartan Stores, Inc. (together with its subsidiaries, Spartan Stores ) is a Fortune 500 company and the largest food distributor serving military commissaries and exchanges in the United States, in terms of revenue, and a leading food distributor and grocery retailer, operating principally in the Midwest. The Company s core businesses include distributing food to military commissaries and exchanges and independent and corporate-owned retail stores located in 44 states and the District of Columbia, Europe, Cuba, Puerto Rico, the Azores, Bahrain and Egypt. Effective with the merger with Nash-Finch Company, we operate three reportable business segments: Military, Food Distribution and Retail. For the 39 week period ended December 28, 2013 (consisted of 39 weeks due to a change in fiscal year end in conjunction with the merger with Nash-Finch Company), we generated net sales of approximately $2.6 billion.

Established in 1917 as a cooperative grocery distributor, Spartan Stores converted to a for-profit business corporation in 1973. In January 1999, Spartan Stores began to acquire retail supermarkets in our focused geographic regions. In August 2000, Spartan Stores common stock became listed on the NASDAQ Stock Market under the symbol SPTN. On November 19, 2013, Spartan Stores merged with Nash-Finch Company, and Nash-Finch Company became a wholly-owned subsidiary of the surviving corporation Spartan Stores. Nash-Finch Company s core businesses include distributing food to military commissaries and independent grocery retailers and distributing to and operating corporate-owned retail stores. Each outstanding share of the common stock of Nash-Finch was converted into 1.20 shares of the combined company s common stock. The Company s common stock continues to trade on the NASDAQ Stock Market under the symbol SPTN. Nash-Finch Company common stock ceased trading on NASDAQ upon completion of the merger. Immediately after the merger, Spartan Stores began doing business under the assumed name of SpartanNash Company , with the formal name change to SpartanNash Company expected to become effective at the annual shareholders meeting in May 2014. Unless the context otherwise requires, the use of the terms SpartanNash, we, us, our and the Company in Annual Report on Form 10-K refers to the surviving corporation Spartan Stores and, as applicable, its consolidated subsidiaries.

The larger geographic reach resulting from the merger with Nash-Finch allows for increased scale as we leverage the organization to enhance the ability of our independent retailers to compete long term in the grocery industry. SpartanNash s hybrid business model supports the close functioning of its Military, Food Distribution, and Retail operations, optimizing the natural complements of each business segment. The model produces operational efficiencies, helps stimulate distribution product demand, and provides sharper market visibility and broader business growth options. In addition, the Military, Food Distribution, and Retail diversification provides added flexibility to pursue the best long-term growth opportunities in each segment.

SpartanNash has established key management priorities that focus on the longer-term strategy of the Company, including establishing a well-differentiated market offering for our Military, Food Distribution, and Retail segments, and additional strategies designed to create value for our shareholders, retailers and customers. These priorities are:

***Military:***

- Leverage the size and scale of the existing distribution and retail segments to attract additional customers.

- Continue to partner with Coastal Pacific Food Distributors to leverage the advantage of a worldwide distribution network.

***Food Distribution:***

- Leverage new competitive position, scale and financial flexibility to further consolidate the distribution channel.
- Leverage retail competency and the capabilities of the combined distribution platform to increase business within the existing account base and potentially add new distribution categories and take advantage of current competitive market dynamics to supply new customers.
- Continue to focus on increasing private brand penetration and overall purchase concentration.

***Retail:***

- Evaluate banners to maintain a portfolio of customer-relevant offerings for the entire market continuum.
- Continue to drive a lean and efficient operating cost structure to remain competitive.
- Rationalize store base to maximize capital efficiency and enhance profitability.
- Strategically deploy capital to modernize the store base.
- Pursue opportunistic roll-ups of existing distribution customers and/or other retailers.
- Drive value by expanding consumer relationships with pharmacy, fuel and other promotional offerings.

***Military Segment***

Our Military segment sells and distributes grocery products primarily to U.S. military commissaries and exchanges. We are the largest distributor, by revenue, in this market.

The products we distribute are delivered to 174 military commissaries and over 400 exchanges located in 38 states across the United States and the District of Columbia, Europe, Puerto Rico, Cuba, the Azores, Egypt and Bahrain. Our distribution centers are strategically located among the largest concentration of military bases in the areas we serve and near Atlantic ports used to ship grocery products to overseas commissaries and exchanges. Our Military segment has an outstanding reputation as a distributor focused on U.S. military commissaries and exchanges, based in large measure on our excellent service metrics, which include fill rate, on-time delivery and shipping accuracy.

The Defense Commissary Agency ( DeCA ) operates a chain of commissaries on U.S. military installations throughout the world. DeCA contracts with manufacturers to obtain grocery and related products for the commissary system. Manufacturers either deliver the products to the commissaries themselves or, more commonly, contract with distributors such as us to deliver the products. Manufacturers must authorize the distributors as their official representatives to DeCA, and the distributors must adhere to DeCA s frequent delivery system procedures governing matters such as product identification, ordering and processing, information exchange and resolution of discrepancies. We obtain distribution contracts with manufacturers through competitive bidding processes and direct negotiations.

We have approximately 600 distribution contracts with manufacturers that supply products to the DeCA commissary system and various exchange systems. These contracts generally have an indefinite term, but may be terminated by either party without cause upon 30 days prior written notice to the other party. The contracts typically specify the commissaries and exchanges we are to supply on behalf of the manufacturer, the manufacturer s products to be supplied, service and delivery requirements and pricing and payment terms**.** Our ten largest manufacturer customers represented approximately 40% of the Military segment s sales for the 39 week period ended December 28, 2013.

As commissaries need to be restocked, DeCA identifies each manufacturer with which an order is to be placed for additional products, determines which distributor is the manufacturer s official representative for a particular commissary or exchange location, and places a product order with that distributor under the auspices of DeCA s master contract with the applicable manufacturer. The distributor selects that product from its existing inventory, delivers it to the commissary or commissaries designated by DeCA, and bills the manufacturer for the product shipped. The manufacturer then bills DeCA under the terms of its master contract. Overseas commissaries are serviced in a similar fashion, except that a distributor s responsibility is to deliver products as and when needed to the port designated by DeCA, which in turn bears the responsibility for shipping the product to the applicable commissary or overseas warehouse.

After we ship a particular manufacturer s products to commissaries in response to an order from DeCA, we invoice the manufacturer for the product price plus a service and/or drayage fee that is typically based on a percentage of the purchase price, but may in some cases be based on a dollar amount per case or pound of product sold. Our order handling and invoicing activities are facilitated by a procurement and billing system developed specifically for the military business, which addresses the unique aspects of its business, and provides our manufacturer customers with a web-based, interactive means of accessing critical order, inventory and delivery information.

***Food Distribution Segment***

SpartanNash s Food Distribution segment uses a multi-platform sales approach to distribute groceries to independent and corporate owned grocery retailers. Total net sales from our Food Distribution segment, including shipments to our corporate-owned stores, which are eliminated in the consolidated financial statements, were approximately $1.7 billion for the 39 week period ended December 28, 2013. We believe that we are the fifth largest wholesale distributor to supermarkets in the United States.

***Customers.*** Our Food Distribution segment supplies a diverse group of independent grocery store operators that range from a single store to supermarket chains with as many as 32 stores, as well as our corporate-owned stores. The newly merged company operates in 24 states with 13 distribution centers supporting approximately 1,900 independently owned supermarkets and also supplies our corporate retail base of 172 stores. This larger geographic reach allows for increased scale as we leverage the organization to enhance the ability of our independent retailers to compete long term in the grocery food industry.

On a national account basis, SpartanNash also services a large retailer, with certain product classes, outside of the traditional grocery supermarket industry. Food Distribution sales are made to nearly 11,000 retail locations for this customer, representing more than 5% of total SpartanNash company revenue. Shipments to these locations are made both from SpartanNash food and military distribution centers. Other than this customer, our Food Distribution customer base is very diverse, with no single customer, excluding corporate-owned stores, exceeding 5% of consolidated net sales.

Our five largest Food Distribution customers (excluding corporate-owned stores) accounted for approximately 21% of our Food Distribution net sales for the 39 week period ended December 28, 2013. In addition, approximately 80% of Food Distribution net sales, including corporate-owned stores, are covered under supply agreements with our Food Distribution customers or are directly controlled by SpartanNash.

***Products.*** Our Food Distribution segment provides a selection of approximately 50,000 stock-keeping units (SKU s), including dry groceries, produce, dairy products, meat, deli, bakery, frozen food, seafood, floral products, general merchandise, pharmacy and health and beauty care.

Our product line includes multi-tiered families of private brands under the platforms of *Spartan, Our Family* and *IGA*. A complete variety of national brands is available in commodities including grocery, dairy, frozen, meat, seafood, produce, floral, bakery, deli, general merchandise and health and beauty care. These market leading products, along with best in class services, allow the retailer the opportunity to support the entire operation with a single supplier. Meeting consumers needs will continue to be our mission as we execute our hybrid model of wholesale, retail and military supply.

***Food Distribution Functions.*** Our Food Distribution network is now comprised of 13 distribution centers with approximately 5.7 million square feet of warehouse space.

We believe our distribution facilities are strategically located to efficiently serve our current customers and have the available capacity to support future growth. We are continually evaluating our inventory movement and assigning SKU s to appropriate areas within our distribution facilities to reduce the time required to stock and pick products in order to achieve additional efficiencies.

We have several projects planned for the fiscal year ending January 3, 2015 (which we refer to as fiscal 2014 ) to further increase the effeciency of our distribution functions. These projects include a cooler expansion in Rapid City, Iowa, billing system conversion integration in the Great Lakes region, a warehouse management system upgrade in Bluefield, consolidation of the Great Lakes region s cigarette and tobacco distribution into the Bellefontaine distribution center, installing voice selection in Sioux Falls and Bluefield, and the purchase of two additional automated guided vehicles ( AGV s ) to complement the six AGV s that were installed in the Grand Rapids distribution center in 2013.

Across our distribution network we operate a fleet of 356 over-the-road tractors, 967 dry vans, and 886 refrigerated trailers. Through routing optimization systems, we carefully manage the 33.6 million miles our fleet drives annually. We remain committed to the ongoing investment required to maintain a best in class fleet while focusing on low cost, environmentally friendly solutions.

Within our fleet we now have 92 new fifty-three foot refrigerated trailers equipped with a Carrier Vector refrigeration unit. The new Vector units have the capability to run on electric standby, offering an economical and environmentally friendly alternative to diesel fuel.

***Additional Services.*** We also offer and provide many of our independent Distribution customers with value-added services, including:

- Site identification and market analysis
- Store planning and development
- Marketing, promotion and advertising
- Technology and information services
- Accounting, payroll and tax preparation
- Human resource services
- Fuel technology
- Account management field sales support
- InSite Business to Business communications
- Coupon redemption
- Product reclamation
- Graphic services
- Category management
- Real estate services
- Construction management services
- Pharmacy retail and procurement services
- Retail pricing

***Retail Segment***

Our neighborhood market strategy distinguishes our stores from supercenters and limited assortment stores by emphasizing convenient locations, demographically targeted merchandise selections, high-quality fresh offerings, customer service, value pricing and community involvement.

Our Retail segment operates 172 retail supermarkets in the Midwest which operate under banners including *Family Fare Supermarkets, No Frills, Bag N Save, Family Fresh Markets, D&W Fresh Markets, Sun Mart* and *Econo Foods,* as well as several other brands.

Our retail supermarkets typically offer dry groceries, produce, dairy products, meat, frozen food, seafood, floral products, general merchandise, beverages, tobacco products, health and beauty care products, delicatessen items and bakery goods. In 90 of our supermarkets, we also offer pharmacy services. In addition to nationally advertised products, the stores carry private brand items, including flagship *Spartan* and *Our Family* brands, *Spartan Fresh Selections*, *IGA* and *Piggly Wiggly* brands; *Top Care*, a health and beauty care brand and *Tippy Toes* by Top Care, a baby brand; *Full Circle* and *Nash Brothers Trading Company*, both natural and organic brands; *World Classics* a premium, unique and worldly brand; *Paws*, a pet supplies brand; *B-leve* a premium bath and beauty brand; and *Valu Time.* In addition to *Valu Time,* we have just launched our new *me too!* value brand. These private brand items provide enhanced retail margins and we believe they help generate increased customer loyalty. See Merchandising and Marketing Corporate Brands. Our retail supermarkets range in size from approximately 9,975 to 92,381 total square feet and average approximately 41,600 total square feet per store.

We operate 34 fuel centers primarily at our supermarket locations operating under the banners *Family Fare Quick Stop*, *D&W Quick Stop*, *Glen s Quick Stop*, *VG s Quick Stop, Forest Hills Quick Stop, FTC Express Fuel* and *Sunmart Express Fuel*. These fuel centers offer refueling facilities and in the adjacent convenience store, a limited variety of popular consumable products. Our prototypical *Quick Stop* stores are approximately 1,100 square feet in size and are generally located adjacent to our supermarkets. We have experienced increases in supermarket sales upon opening fuel centers and initiating cross-merchandising activities. We are planning to continue to open additional fuel centers at certain of our supermarket locations over the next few years.

Our stores are primarily the result of acquisitions from January 1999 to December 2013 and the recent merger with Nash-Finch. The following chart details the changes in the number of our stores over the last five fiscal years:

| **Fiscal Year** | **Number of Stores at Beginning of Fiscal Year** | **Stores Acquired or Added During Fiscal Year** | **Stores Closed or Sold During Fiscal Year** | **Number of Stores at End of Fiscal Year** |
|---|---|---|---|---|
| March 27, 2010 | 100 | | 4 | 96 |
| March 26, 2011 | 96 | 1 | | 97 |
| March 31, 2012 | 97 | | 1 | 96 |
| March 30, 2013 | 96 | 5 | | 101 |
| December 28, 2013 | 101 | 78 | 7 | 172 |

During the 39 week period ended December 28, 2013, we opened 1 new *ValuLand* store, completed one major remodel, and completed many limited remodels. We also converted 12 stores to the *Family Fare* banner and acquired two stores in Dickinson, North Dakota.

We expect to continue making progress with our capital investment program during fiscal 2014 by completing five minor remodels and ten major remodels, 16 store re-banners, two fuel centers as well as beginning construction on two new stores. We will also continue to evaluate our store base and may close up to ten stores over the course of 2014. We evaluate proposed retail projects based on demographics and competition within each market, and prioritize projects based on their expected returns on investment. Approval of proposed capital projects requires a projected internal rate of return that meets or exceeds our policy; however, we may undertake projects that do not meet this standard to the extent they represent required maintenance or necessary infrastructure improvements. In addition, we perform a post completion review of financial results versus our expectation on all major projects. We believe that focusing on such measures provides us with an appropriate level of discipline in our capital expenditures process.

***Products***

We offer a wide variety of grocery products, general merchandise and health and beauty care, pharmacy, fuel and other items and services. Our consolidated net sales include the net sales of our Military segment, corporate-owned stores and fuel centers in our Retail segment and the net sales of our Food Distribution business, which excludes sales to affiliated stores.

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

| **(Dollars in thousands)** | **December 28, 2013 (39 weeks)** | | **March 30, 2013 (52 weeks)** | | **March 31, 2012 (53 weeks)** | |
|---|---|---|---|---|---|---|
| Non-perishables (1) | $ 1,393,157 | 53.6% | $ 1,289,461 | 49.4% | $ 1,293,147 | 49.1% |
| Perishables (2) | 894,783 | 34.5 | 930,659 | 35.7 | 933,545 | 35.4 |
| Fuel | 145,631 | 5.6 | 179,012 | 6.9 | 187,631 | 7.1 |
| Pharmacy | 163,659 | 6.3 | 209,028 | 8.0 | 219,903 | 8.4 |
| **Consolidated net sales** | $ 2,597,230 | 100% | $ 2,608,160 | 100% | $ 2,634,226 | 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.

***Reporting Segment Financial Data***

More detailed information about our reporting segments may be found in Note 17 to the consolidated financial statements included in Item 8, which is herein incorporated by reference. All of our sales and all of our assets are in the United States of America.

***Discontinued Operations***

Certain of our retail and food distribution operations have been recorded as discontinued operations. Discontinued retail operations consist of certain stores that have been closed or sold. Discontinued food distribution operations consist of our Maumee, Ohio and Toledo, Ohio distribution centers that previously serviced retail stores which have been closed or sold. Additional information may be found in Note 16 to the consolidated financial statements included in Item 8, which is herein incorporated by reference.

***Marketing and Merchandising***

***General.*** We continue to align our marketing and merchandising strategies with current consumer behaviors by providing initiatives centered on loyalty, value, and health and wellness. These strategies focus on delivering consumer centric programs to effectively leverage the use of loyalty card program data and category management principles to satisfy the consumer s needs.

We believe that our over-arching focus on the consumer gives us insight into purchasing and consumption behavior and the flexibility to adapt to rapidly changing market conditions by making tactical adjustments to our marketing and merchandising programs that deliver more tangible value to our customers. To further strengthen our knowledge of the consumer we have entered into a consulting and analytical partnership with Aimia, Inc., a global leader in loyalty management.

Through the partnership, SpartanNash and Aimia will work closely together to leverage and further develop SpartanNash s customer centric approach to retail. By harnessing data collected from our Yes Rewards customer loyalty program, SpartanNash will continue to improve our capabilities to provide customers with a more relevant and personalized shopping experience. This effort also enables us to continue to learn more about our best customers; develop strategies to enable long-term customer and supplier loyalty; deploy a more effective and efficient marketing spend; and ultimately make better business decisions.

As we build this capability, along with our other strategies to develop and leverage insights, we will continue to share our marketing and merchandising learnings and best practices across our broad wholesale customer base.

Our Yes Rewards program continues to play a key role in providing us with sophisticated data to understand our customers purchasing behavior. This information is integral to improving the effectiveness of our promotions, marketing and merchandising programs. In the 39 week period ended December 28, 2013, based on customer research and insights, we simplified our Yes Rewards program in order to further engage the customer and improve the customer experience. We revised our Yes Rewards program by removing the points component of the program whereby customers could earn and redeem points for their purchases. We also simplified our program by focusing on four key value propositions for the customer: in-store savings, fuel, pharmacy, and digital coupons. We introduced our digital coupon program in October 2013, enabling us to demonstrate additional value to our customers and expanding their ability to access promotions via mobile, online and in-store. To date, more than two million coupons have been downloaded. These improvments will help us to further build longer-term customer loyalty, maintain efficicient marketing spend and increase return on investment, improve our sales growth opportunites and further strenghen our market position.

As we expand our service offerings, we believe that we differentiate ourselves from our competitors by offering a full set of services, from value added services in our Food Distribution segment to the addition of fuel centers and *Starbucks Coffee* shops in some of our retail stores.

To engender loyalty with our retail customers, we provide them with discounts on fuel purchases at our fuel centers. Fuel centers have proven to be effective traffic-builders for fuel-purchasing customers who wish to take advantage of cross-promotions between the stores and the *Quick Stop* fuel centers or one of our third party fuel suppliers. Consumers are focusing on value in today s economy and offerings such as the fuel rewards program are helping us to meet that need.

We offer pharmacy services in 90 of our supermarkets and we also operate two free standing pharmacy locations. We believe the pharmacy service offering in our supermarkets is an important part of the consumer experience. We continue to evolve our pharmacy program by connecting with the consumer and focusing on health and wellness. In our Michigan pharmacies we offer free medications (antibiotics, diabetic medications and pre-natal vitamins) along with generic drugs for $4 and $10 as well as food solutions for preventative health and education for our customers. We are considering the possible expansion of these programs to our pharmacies outside of Michigan.

We strive to be a health and wellness solution for our customers as well. One way that we do this is with our Nutrition Guide tags which provide nutrition information on shelf tags for thousands of items throughout the store, making it easy for our customers to purchase items that meet their health needs. In addition, based on the success of our corporate-owned retail stores, we have rolled out our Nutrition Guide program to our independent distribution customers. This value-add service enables our independent customers to communicate important product nutrition information to their customers in a consumer-friendly manner.

We were also one of the first retailers in the country to begin to incorporate the Food Marketing Institute s Facts Up Front nutrition labeling on our *Spartan* and *Spartan Fresh Selections* private brand packages. We have substantially all of our *Spartan* brand food product packaging incorporated with Facts Up Front and we plan to expand this labeling to other corporate owned brands.

At SpartanNash, we are committed to being a consumer driven retailer. In fiscal 2009, we implemented a customer satisfaction program that gives consumers a channel for communicating their store experiences. Retail customers are randomly selected via point-of-sale receipts and invited to give us feedback by completing an online survey. Results of these surveys help us assess overall customer satisfaction and identify several opportunities to focus on to drive consumer satisfaction and loyalty. From this program, we have developed a fresh selection initiative to drive our competitive advantage. We value the opinions of our consumers and believe the best way to deliver a high quality shopping experience is to let customers tell us what they want and need. We believe this survey dialogue will better enable us to identify opportunities for continuous improvements for consistency and excellence in the overall consumer experience.

Over the past two years, we have been experimenting with a value store format, under the banner *Valu Land.* We converted three small store locations to this format in fiscal year ended March 31, 2012, opened four new *Valu Land* locations during fiscal year ended March 30, 2013 and opened one new *Valu Land* location during the 39 week period ended December 28, 2013. We closed two underperforming locations in December 2013. We are still early in the development and testing of this store format and will continue to fine tune the offering as our learnings progress.

***Private Brands.*** SpartanNash currently markets and distributes over 8,600 private brand items including *Spartan*, *Spartan Fresh Selections*, *Our Family, IGA* and *Piggly Wiggly* brands; *Top Care*, a health and beauty care brand; *Tippy Toe*, a baby brand; *Full Circle* and *Nash Brothers Trading Company*, both natural and organic brands; *World Classics*, a premium, unique and worldly brand; *Paws*, a pet supplies brand; *B-leve*, a premium bath and beauty brand; and *Valu Time.* In addition to *Valu Time,* we have just launched our new *me too!* value brand. We believe that our private brand offerings are part of our most valuable strategic assets, demonstrated through customer loyalty and profitability.

We have worked diligently to develop a best in class private brand program that contains multiple labels and go-to-market strategies. We have added more than 600 corporate brand products to our consumer offerings in the past year and plan to introduce approximately 500 new items in fiscal 2014. Our products have been frequently recognized for excellence in packaging design and product development. These awards underscore our continued commitment to providing the consumer with quality products at exceptional value. Our focus is and will continue to be the pursuit of new opportunities and expansion of private brand offerings to our consumers.

***Competition***

Our Military, Food Distribution and Retail segments operate in highly competitive markets, which typically result in low profit margins for the industry as a whole. We compete with, among others, regional and national grocery distributors, independently owned retail grocery stores, large chain stores that have integrated wholesale and retail operations, mass merchandisers, limited assortment stores and wholesale membership clubs, many of whom have greater resources than we do.

We are one of five distributors in the United States with annual sales to the DeCA commissary system in excess of $100 million that distributes products via the frequent delivery system. The remaining distributors that supply DeCA tend to be smaller, regional and local providers. In addition, manufacturers contract with others to deliver certain products, such as baking supplies, produce, deli items, soft drinks and snack items, directly to DeCA commissaries and service exchanges. Because of the narrow margins in this industry, it is of critical importance for distributors to achieve economies of scale, which is typically a function of the density or concentration of military bases within the geographic market(s) a distributor serves, and the distributor s share of that market. As a result, no single distributor in this industry, by itself, has a nationwide presence. Rather, distributors tend to concentrate on specific regions, or areas within specific regions, where they can achieve critical mass and utilize warehouse and distribution facilities efficiently. In addition, distributors that operate larger non-military specific distribution businesses tend to compete for DeCA commissary business in areas where such business would enable them to more efficiently utilize the capacity of their existing distribution centers. We believe the principal competitive factors among distributors within this industry are customer service, price, operating efficiencies, reputation with DeCA and location of distribution centers. We believe our competitive position is very strong with respect to all these factors within the geographic areas where we compete.

The primary competitive factors in the food distribution business include price, product quality, variety and service. We believe our overall service level, defined as actual units shipped divided by actual units ordered is among industry leading performance in our distribution segments.

The principal competitive factors in the retail grocery business include the location and image of the store; the price, quality and variety of the perishable products; and the quality and consistency of service. We believe we have developed and implemented strategies and processes that allow us to remain competitive in our Retail segment. We monitor planned store openings by our competitors and have established proactive strategies to respond to new competition both before and after the competitive store opening. Strategies to combat competition vary based on many factors, such as the competitor s format, strengths, weaknesses, pricing and sales focus. During the past three fiscal years, three competitor supercenters opened in markets in which we operate corporate-owned stores. No additional openings are expected to occur during fiscal 2014 against our corporate-owned stores. As a result of these openings we believe the majority of our supermarkets compete with one, if not multiple, supercenters.

***Seasonality***

Our sales and operating performance vary with seasonality. Our former first and fourth quarters were typically our lowest sales quarters. In the future under our new fiscal quarter format, the first and second quarters are expected to be our lowest sales quarters. Therefore, operating results are generally lower during these two quarters. Many northern Michigan stores are dependent on tourism and therefore, are most affected by seasons and 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. Historically, all quarters are 12 weeks, except for our third quarter, which was 16 weeks and included the Thanksgiving and Christmas holidays. Beginning with fiscal 2014, our first quarter will consist of 16 weeks and will usually include the Easter holiday while all other quarters will consist of 12 weeks each. The transition fiscal year ended December 28, 2013 consisted of 39 weeks; therefore, the third and final quarter of the short year consisted of 15 weeks rather than 16 weeks. Fiscal year ended March 30, 2012 contained 53 weeks; therefore, the fourth quarter of fiscal 2012 consisted of 13 weeks rather than 12 weeks.

***Suppliers***

We purchase products from a large number of national, regional and local suppliers of name brand and private brand merchandise. We have not encountered any material difficulty in procuring or maintaining an adequate level of products to serve our customers. No single supplier accounts for more than 7.0% of our purchases. We continue to develop strategic relationships with key suppliers and we believe this will prove valuable in the development of enhanced promotional programs and consumer value perceptions.

***Intellectual Property***

We own valuable intellectual property, including trademarks and other proprietary information, some of which are of material importance to our business.

***Technology***

Spartan continues to invest in technology as a means of maximizing the efficiency of our operations, improving service to our customers, and where possible deploying technology to provide a competitive advantage in the marketplace.

***Supply Chain.*** During the 39 week period ended December 28, 2013, we continued to make major enhancements to our web based product information system for use by our distribution customers. We completed our new retail price management system which allows our independent customers to better manage and control the retail prices of the products supplied by SpartanNash. We also made major enhancements to our order management system including order maintenance and status features for the distribution customer. In the distribution area we installed the first phase of AGVs in our Grand Rapids Distribution center. These AGVs provide automated put-away and replenishment of pallets in the grocery distribution center. We also dramatically expanded our use of Advanced Ship Notices for receiving in our distribution centers.

***Retail Systems.*** During the 39 week period ended December 28, 2013, we started the pilot of a major revision of our self-checkout system to provide internal efficiencies and enhance the customer experience. We enhanced the loyalty marketing system to provide electronic coupons for SpartanNash and manufacturer coupons, through e-mail, web and mobile access. We released several new versions of our mobile smartphone applications to enhance the customer experience and to add additional functionality. We began the installation of a major Loyalty Analytics system to support Marketing and Merchandising customer analysis of our loyalty system data.

***Administrative Systems.*** We implemented numerous enhancements to our Human Resource system in the areas of absence management, time keeping and management self service functions.

***Information Technology Infrastructure.*** We completed a major upgrade to our storage systems during the 39 week fiscal period ended December 28, 2013 to dramatically increase capacity and performance. We added additional processing capacity and increased our network bandwidth at our primary and backup data centers. We added a high performance data base machine to dramatically improve the performance of our data warehouse and business intelligence reporting system.

***Merger Related System Consolidation.*** With the completion of the merger with Nash-Finch Company, we have developed a plan to consolidate to a single set of computer systems from the two companies. We have completed an analysis of the existing systems of the two companies and developed a plan to consolidate on to the best system from the two legacy companies. This analysis has identified a set of over 60 projects to perform the conversion and consolidation. These projects have been laid out in a three year schedule that allows SpartanNash to achieve the planned synergies and provide the best possible experience for our customers from the resulting systems.

***Associates***

As of December 28, 2013, we employed approximately 15,900 associates, 8,800 of which are on a full-time basis and 7,100 which are part-time. Approximately 1,300 associates, or 8%, were represented by unions under collective bargaining agreements that will expire over the next two years and consisted primarily of warehouse personnel and drivers at our Michigan, Ohio and Indiana distribution centers. We consider our relations with our union and non-union associates to be good and have not had any material work stoppages in over twenty years.

***Regulation***

We are subject to federal, state and local laws and regulations covering the purchase, handling, sale and transportation of our products. Several of our products are subject to federal Food and Drug Administration regulation. We believe that we are in substantial compliance in all material respects with the Food and Drug Administration and other federal, state and local laws and regulations governing our businesses.

***Forward-Looking Statements***

The matters discussed in this Item 1 include forward-looking statements. See Forward-Looking Statements at the beginning of this Annual Report on Form 10-K.

***Available Information***

The address of our web site is www.spartannash.com. The inclusion of our website address in this Form 10-K does not include or incorporate by reference the information on or accessible through our website, and you should not consider information contained on or accessible through those websites as part of this Form 10-K. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments to those reports) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act available on our web site as soon as reasonably practicable after we electronically file or furnish such materials with the Securities and Exchange Commission. Interested persons can view such materials without charge by clicking on For Investors and then SEC Filings on our web site. SpartanNash is an accelerated filer within the meaning of Rule 12b-2 under the Securities Exchange Act.

**Item 1A. Risk Factors**

Our business faces many risks. If any of the events or circumstances described in the following risk factors occurs, our financial condition or results of operations may suffer, and the trading price of our common stock could decline. This discussion of risk factors should be read in conjunction with the other information in this Annual Report on Form 10-K. All of our forward-looking statements are affected by the risk factors discussed in this item and this discussion of risk factors should be read in conjunction with the discussion of forward-looking statements which appears at the beginning of this report.

***We operate in an extremely competitive industry. Many of our competitors are much larger than we are and may be able to compete more effectively.***

The Military segment faces competition from large national and regional food distributors as well as smaller distributors. Due to the narrow margins in the military food distribution industry, it is of critical importance for distributors to achieve economies of scale, which are typically a function of the density or concentration of military bases in the geographic markets a distributor serves and a distributor s share of that market. As a result, no single distributor in this industry, by itself, has a nationwide presence.

Our Food Distribution and Retail segments compete with, among others, regional and national grocery distributors, independently owned retail grocery stores, large chain stores that have integrated wholesale and retail operations, mass merchandisers, limited assortment stores and wholesale membership clubs, many of whom have greater resources than we do. Some of our distribution and retail competitors are substantially larger and have greater financial resources and geographic scope, lower merchandise acquisition costs and lower operating expenses than we do, intensifying competition at the wholesale and retail levels.

The effects of industry consolidation and the expansion of alternative store formats have resulted in, and continue to result in, market share losses for traditional grocery stores. These trends have produced even stronger competition for our retail business and for the independent customers of our food distribution business. To the extent our independent customers are acquired by our competitors or are not successful in competing with other retail chains and non-traditional competitors, sales by our food distribution business will be affected. If we fail to implement strategies to respond effectively to these competitive pressures, our operating results could be adversely affected by price reductions, decreased sales or margins, or loss of market share.

This competition may result in reduced profit margins and other harmful effects on us and the Food Distribution customers that we supply. Ongoing industry consolidation could result in our loss of customers that we currently supply and could confront our retail operations with competition from larger and better-capitalized chains in existing or new markets. We may not be able to compete successfully in this environment.

***Our businesses could be negatively affected if we fail to retain existing customers or attract significant numbers of new customers.***

Growing and increasing the profitability of our distribution businesses is dependent in large measure upon our ability to retain existing customers and capture additional distribution customers through our existing network of distribution centers, enabling us to more effectively utilize the fixed assets in those businesses. Our ability to achieve these goals is dependent, in part, upon our ability to continue to provide a high level of customer service, offer competitive products at low prices, maintain high levels of productivity and efficiency, particularly in the process of integrating new customers into our distribution system, and offer marketing, merchandising and ancillary services that provide value to our independent customers. If we are unable to execute these tasks effectively, we may not be able to attract significant numbers of new customers, and attrition among our existing customer base could increase, either or both of which could have an adverse impact on our revenue and profitability.

Growing and increasing the profitability of our retail business is dependent upon increasing our market share in the communities where our retail stores are located. We plan to invest in redesigning some of our retail stores into other formats in order to attract new customers and increase our market share. Our results of operations may be adversely impacted if we are unable to attract significant numbers of new retail customers.

***Government regulation could harm our business.***

Our business is subject to extensive governmental laws and regulations including, but not limited to, employment and wage laws and regulations, regulations governing the sale of pharmaceuticals, alcohol and tobacco, minimum wage requirements, working condition requirements, public accessibility requirements, citizenship requirements, environmental regulation, and other laws and regulations. A violation or change of these laws could have a material effect on our business, financial condition and results of operations.

Like other companies that sell food and drugs, our stores are subject to various federal, state, local, and foreign laws, regulations, and administrative practices affecting our business. We must comply with numerous provisions regulating health and sanitation standards, facilities inspection, food labeling, and licensing for the sale of food, drugs, tobacco and alcoholic beverages.

We cannot predict the nature of future laws, regulations, interpretations, or applications, or determine what effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state, local, and foreign regulatory requirements will have on our future business. They could, however, require that we recall or discontinue sale of certain products, make substantial changes to our facilities or operations, or otherwise result in substantial increases in operating expense. Any or all of such requirements could have an adverse effect on our results of operations and financial condition.

***Our Military segment operations are dependent upon domestic and international military distribution, and a change in the military commissary system, or level of governmental funding, could negatively impact our results of operations and financial condition.***

Because our Military segment sells and distributes grocery products to military commissaries and exchanges in the United States and overseas, any material changes in the commissary system, the level of governmental funding to DeCA, military staffing levels, or the locations of bases may have a corresponding impact on the sales and operating performance of this segment. These changes could include privatization of some or all of the military commissary system, relocation or consolidation of commissaries and exchanges, base closings, troop redeployments or consolidations in the geographic areas containing commissaries and exchanges served by us, or a reduction in the number of persons having access to the commissaries and exchanges. Mandated reductions in the government expenditures, including those imposed as a result of sequestration, may impact the level of funding to DeCA and could have a material impact on our operations.

***We are subject to state and federal environmental regulations.***

Under various federal, state and local laws, ordinances and regulations, we may, as the owner or operator of our locations, be liable for the costs of removal or remediation of contamination at these current or our former locations, whether or not we knew of, or were responsible for, the presences of such contamination. The failure to properly remediate such contamination may subject us to liability to third parties and may adversely affect our ability to sell or lease such property or to borrow money using such property as collateral.

Compliance with existing and future environmental laws regulating underground storage tanks may require significant capital expenditures and increased operating and maintenance costs.

The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. In the future, we may incur substantial expenditures for remediation of contamination that has not been discovered at existing or acquired locations. We cannot assure you that we have identified all environmental liabilities at all of our current and former locations; that material environmental conditions not known to us do not exist; that future laws, ordinances or regulations will not impose material environmental liability on us; or that a material environmental condition does not otherwise exist as to any one or more of our locations. In addition, failure to comply with any environmental laws, ordinances or regulations or an increase in regulations could adversely affect our operating results and financial condition.

***Changes in accounting standards could materially impact our results.***

Generally Accepted Accounting Principles ( GAAP ) and related accounting pronouncements, implementation guidelines, and interpretations for many aspects of our business, such as accounting for insurance and self-insurance, inventories, goodwill and intangible assets, store closures, leases, income taxes and share-based payments, are highly complex and involve subjective judgments. Changes in these rules or their interpretation could significantly change or add significant volatility to our reported earnings without a comparable underlying change in cash flow from operations.

***Safety concerns regarding our products could harm our business.***

It is sometimes necessary for us to recall unsafe, contaminated or defective products. Recall costs can be material and we might not be able to recover costs from our suppliers. Concerns regarding the safety of food products sold by us could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply for some or all of their food needs, even if the basis for concern is outside of our control. Any loss of confidence on the part of our customers would be difficult and costly to overcome. Any real or perceived issue regarding the safety of any food or drug items sold by us, regardless of the cause, could have a substantial and adverse effect on our business.

***We may not be able to implement our strategy of growth through acquisitions.***

Part of our growth strategy involves selected acquisitions of additional retail grocery stores, grocery store chains or distribution facilities. We may not be able to implement this part of our growth strategy or ultimately be successful. We may not be able to identify suitable acquisition candidates in the future, complete acquisitions or obtain the necessary financing.

Because we operate in the Food Distribution business, future acquisitions of retail grocery stores could result in us competing with our independent grocery store customers and could have adverse effects on existing business relationships with our Food Distribution customers.

The success of our acquisitions will depend, in part, on whether we achieve the business synergies and related cost savings that we anticipated in connection with these transactions and any future acquisitions. Accordingly, we may not achieve expected results and long-term business goals.

***Our business is subject to risks from regional economic conditions, fuel prices, and other factors in our markets.***

Our business is sensitive to changes in general economic conditions. In recent years, the United States has experienced volatility in the economy and financial markets due to uncertainties related to energy prices, availability of credit, difficulties in the banking and financial services sector, the decline in the housing market, diminished market liquidity, falling consumer confidence and high unemployment rates. These adverse economic conditions in our markets, potential reduction in the populations in our markets and the loss of purchasing power by residents in our markets could reduce the amount and mix of groceries purchased, could cause consumers to trade down to less expensive mix of products or to trade down to discounters, all of which may affect our revenues and profitability.

Rising gasoline prices may affect consumer behavior and retail grocery prices. The impact of rising petroleum prices may prompt consumers to make different choices in how and where they shop due to the high price of gasoline. Additionally, the impact of higher fuel costs is passed through by manufacturers and distributors in the prices of goods and services provided, again potentially affecting consumer buying decisions. This could have adverse impacts on retail store traffic, basket size and overall spending at both our corporate and independent retail stores.

In addition, many of our retail grocery stores, as well as stores operated by our Food Distribution customers are located in areas that are heavily dependent upon tourism. Unseasonable weather conditions and the economic conditions discussed above may decrease tourism activity and could result in decreased sales by our retail grocery stores and decreased sales to our Food Distribution customers, adversely affecting our business.

Economic downturns and uncertainty have adversely affected overall demand and intensified price competition, and have caused consumers to trade down by purchasing lower margin items and to make fewer purchases in traditional supermarket channels. Continued negative economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, volatility in fuel and energy costs, food price inflation or deflation, employment trends in our markets and labor costs, the impact of natural disasters or acts of terrorism, and other matters affecting consumer spending could cause consumers to continue shifting even more of their spending to lower-priced products and competitors. The continued general reductions in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability.

Disruptions to worldwide financial and credit markets could potentially reduce the availability of liquidity and credit generally necessary to fund a continuation and expansion of global economic activity. A shortage of liquidity and credit in certain markets has the potential to lead to worldwide economic difficulties that could be prolonged. A general slowdown in the economic activity caused by an extended period of economic uncertainty could adversely affect our businesses. Difficult financial and economic conditions could also adversely affect our customers ability to meet the terms of sale or our suppliers ability to fully perform their commitments to us.

***Macroeconomic and geopolitical events may adversely affect our customers, access to products, or lead to general cost increases which could negatively impact our results of operations and financial condition.***

The impact of events in foreign countries which could result in increased political instability and social unrest and the economic ramifications of significant budget deficits in the United States and changes in policy attributable to them at both the federal and state levels could adversely affect our businesses and customers. Adverse economic or geopolitical events could potentially reduce our access to or increase prices associated with products sourced abroad. Such adverse events could lead to significant increases in the price of the products we procure, fuel and other supplies used in our business, utilities, or taxes that cannot be fully recovered through price increases. In addition, disposable consumer income could be affected by these events, which could have a negative impact on our results of operations and financial condition.

***Inflation and deflation may adversely affect our operating results.***

In this uncertain economy, it is difficult to forecast whether fiscal 2014 will be a period of inflation or deflation. Food deflation could reduce sales growth and earnings, while food inflation, combined with reduced consumer spending, could reduce gross profit margins. If we experience significant inflation or deflation, especially in the context of continued lower consumer spending, then our financial condition and results of operations may be adversely affected.

***Substantial operating losses may occur if the customers to whom we extend credit or for whom we guarantee loan or lease obligations fail to repay us.***

In the ordinary course of business, we extend credit, including loans, to our Food Distribution customers, and provide financial assistance to some customers by guaranteeing their loan or lease obligations. We also lease store sites for sublease to independent retailers. Generally, our loans and other financial accommodations are extended to small businesses that are unrelated and may have limited access to conventional financing. As of December 28, 2013, we had loans, net of reserves, of $30.7 million outstanding to 52 of our Food Distribution customers and had guaranteed outstanding lease obligations of Food Distribution customers totaling $1.0 million. In the normal course of business, we also sublease retail properties and assign retail property leases to third parties. As of December 28, 2013, the present value of our maximum contingent liability exposure, with respect to subleases and assigned leases was $17.7 million and $7.9 million, respectively. While we seek to obtain security interest and other credit support in connection with the financial accommodations we extend, such collateral may not be sufficient to cover our exposure. Greater than expected losses from existing or future credit extensions, loans, guarantee commitments or sublease arrangements could negatively and potentially materially impact our operating results and financial condition.

***We may be unable to retain our key management personnel.***

Our success depends to a significant degree upon the continued contributions of senior management. The loss of any key member of our management team may prevent us from implementing our business plans in a timely manner. We cannot assure you that successors of comparable ability will be identified and appointed and that our business will not be adversely affected.

***A number of our Food Distribution segment associates are covered by collective bargaining agreements.***

Approximately 57% of our warehouse associates in our Food Distribution business segment are covered by collective bargaining agreements which expire between March 2014 and September 2016. We expect that rising health care, pension and other employee benefit costs, among other issues, will continue to be important topics of negotiation with the labor unions. Upon the expiration of our collective bargaining agreements, work stoppages by the affected workers could occur if we are unable to negotiate an acceptable contract with the labor unions. This could significantly disrupt our operations. Further, if we are unable to control health care and pension costs provided for in the collective bargaining agreements, we may experience increased operating costs and an adverse impact on future results of operations.

***Unions may attempt to organize additional employees.***

While we believe that relations with our employees are good, we may continue to see additional union organizing campaigns. The potential for unionization could increase as any new related legislation regulations are passed. We respect our employees   right to unionize or not to unionize. However, the unionization of a significant portion of our workforce could increase our overall costs at the affected locations and adversely affect our flexibility to run our business in the most efficient manner to remain competitive or acquire new business and could adversely affect our results of operations by increasing our labor costs or otherwise restricting our ability to maximize the efficiency of our operations.

***Costs related to multi-employer pension plans and other postretirement plans could increase.***

We contribute to the Central States Southeast and Southwest Pension Fund ( Plan ), a multiemployer pension plan. Our participation in this Plan results from obligations contained in collective bargaining agreements with Teamsters locals 406 and 908. We do not administer nor control this Plan, and we have relatively little control over the level of contributions we are required to make. Currently, this Plan is underfunded; and as a result, contributions are scheduled to increase. Additionally, we expect that contributions to this Plan will be subject to further increases. Benefit levels and related issues will continue to create collective bargaining challenges. The amount of any increase or decrease in our required contributions to this Plan will depend upon the outcome of collective bargaining, the actions taken by the trustees who manage the Plan, governmental regulations, actual return on investment of Plan assets, the continued viability and contributions of other contributing employers, and the potential payment of withdrawal liability should we choose to exit a market, among other factors.

Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur withdrawal liability to the plan if it is underfunded. The assessed withdrawal liablity represents the portion of the plan s underfunding that is allocable to the withdrawing employer under very complex actuarial and allocation rules. Withdrawal liability may be incurred under a variety of circumstances, including selling, closing or substantially reducing employment at a facility. Withdrawal liability could be material, and potential exposure to withdrawal liability may influence business decisions and could cause the company to forgo business opportunities. We are currently unable to reasonably estimate such liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated.

We maintain defined benefit retirement plans for certain of our employees that do not participate in multi-employer pension plans. These plans are frozen. Expenses associated with the defined benefit plans may significantly increase due to changes to actuarial assumptions or investment returns on plan assets that are less favorable than projected. In addition, changes in our funding status could adversely affect our financial position.

***Risks associated with insurance plan claims could increase future expenses.***

We use a combination of insurance and self-insurance to provide for potential liabilities for workers compensation, automobile and general liability, property insurance, director and officers liability insurance, and employee health care benefits. The liabilities that have been recorded for these claims represent our best estimate, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through December 28, 2013. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, and changes in discount rates could all affect the level of reserves required and could cause future expense to maintain reserves at appropriate levels.

***Costs related to associate healthcare benefits are expected to continue to increase.***

We provide health benefits for a large number of associates. Our costs to provide such benefits continue to increase annually and recent legislative and private sector initiatives regarding healthcare reform are likely to result in significant changes to the U.S. healthcare system. At this time we are not able to determine the impact that healthcare reform will have on the Company-sponsored healthcare plans. In addition, we participate in various multi-employer health plans for our union associates, and we are required to make contributions to these plans in amounts established under collective bargaining agreements. The cost of providing benefits through such plans has escalated rapidly in recent years. The amount of any increase or decrease in our required contributions to these multi-employer plans will depend upon many factors, many of which are beyond our control. If we are unable to control the costs of providing healthcare to associates, we may experience increased operating costs, which may adversely affect our financial condition and results of operations.

***Changes in vendor promotions or allowances, including the way vendors target their promotional spending, and our ability to effectively manage these programs could significantly impact our margins and profitability.***

We cooperatively engage in a variety of promotional programs with our vendors. As the parties assess the results of specific promotions and plan for future promotions, the nature of these programs and the allocation of dollars among them changes over time. We manage these programs to maintain or improve margins while at the same time increasing sales for us and for the vendors. A reduction in overall promotional spending or a shift in promotional spending away from certain types of promotions that we and our distribution customers have historically utilized could have a significant impact on profitability.

***We depend upon vendors to supply us with quality merchandise at the right time and at the right price.***

We depend heavily on our ability to purchase merchandise in sufficient quantities at competitive prices. We have no assurances of continued supply, pricing, or access to new products and any vendor could at any time change the terms upon which it sells to us or discontinue selling to us. Sales demands may lead to insufficient in-stock positions of our merchandise.

Significant changes in our ability to obtain adequate product supplies due to weather, food contamination, regulatory actions, labor supply, or product vendor defaults or disputes that limit our ability to procure products for sale to customers could have an adverse effect on our operating results.

***Threats to security or the occurrence of a health pandemic could harm our business.***

Our business could be severely impacted by wartime activities, threats or acts of terrorism or a widespread health pandemic. Any of these events could adversely impact our business by disrupting delivery of products to our corporate stores or our independent retail customers, by affecting our ability to appropriately staff our stores and by causing customers to avoid public places.

We have large, complex information technology systems that are important to our business operations. Although we have implemented security programs and disaster recovery facilities and procedures, security could be compromised and systems disruptions, data theft or other criminal activity could occur. This could result in a loss of sales or profits or cause us to incur significant costs to restore our systems or to reimburse third parties for damages. To date, we have not had any material breaches of security.

***Severe weather and natural disasters could harm our business.***

Severe weather conditions and natural disasters, whether a result of climate change or otherwise, could affect the suppliers from whom we purchase products and could cause disruptions in our operations. Unseasonably adverse climatic conditions that impact growing conditions and the crops of food producers may adversely affect the availability or cost of certain products.

***Damage to our facilities could harm our business.***

A majority of the product we supply to our retail stores, Military and Food Distribution customers flows through our distribution centers. While we believe we have adopted commercially reasonable precautions, insurance programs, and contingency plans, the destruction of, or substantial damage to, our distribution centers due to natural disaster, severe weather conditions, accident, terrorism, or other causes could substantially compromise our ability to distribute products to our retail stores, Military and Food Distribution customers. This could result in a loss of sales, profits and asset value.

***Impairment charges for goodwill or other intangible assets could adversely affect our financial condition and results of operations.***

We are required to test annually goodwill and intangible assets with indefinite useful lives, including the goodwill associated with past acquisitions and any future acquisitions, to determine if impairment has occurred. Additionally, interim reviews must be performed whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made.

The testing of goodwill and other intangible assets for impairment requires management to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including potential changes in economic, industry or market conditions, changes in business operations, changes in competition or changes in our stock price and market capitalization. Changes in these factors, or changes in actual performance compared with estimates of our future performance, may affect the fair value of goodwill or other intangible assets, which may result in an impairment charge. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, our financial condition and results of operations may be adversely affected.

***The combined company may be unable to successfully integrate the businesses of Spartan Stores and Nash-Finch and realize the anticipated benefits of the merger.***

The merger involves the combination of two companies that formerly operated as independent public companies. The combined company is required to devote significant management attention and resources to integrating the business practices and operations of Spartan Stores and Nash-Finch. Potential difficulties the combined company may encounter as part of the integration process include the following:

- the inability to successfully combine the businesses of Spartan Stores and Nash-Finch in a manner that permits the combined company to achieve the full synergies anticipated to result from the merger;

- complexities associated with managing the businesses of the combined company, including the challenge of integrating complex systems, technology, distribution channels, networks and other assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;

- integrating the workforces of the two companies while maintaining focus on providing consistent, high quality customer service; and

- potential unknown liabilities and unforeseen increased expenses or delays associated with the merger, including capital expenditures and one-time cash costs to integrate the two companies that may exceed current estimates.

***The future results of the combined company will suffer if the combined company does not effectively manage its expanded operations following the completion of the merger.***

Following the completion of the merger, the size of the business of the combined company increased significantly beyond the former size of either Spartan Stores or Nash-Finch s business. The combined company s future success depends, in part, upon its ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of the combined operations and associated increased costs and complexity. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the merger.

***The combined company is expected to incur substantial expenses related to the completion of the merger and the integration of Spartan Stores and Nash-Finch.***

The combined company will incur substantial expenses in connection with the completion of the merger and the integration of Spartan Stores and Nash-Finch. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated, including purchasing, accounting and finance, sales, payroll, pricing, revenue management, marketing and benefits. In addition, the businesses of Spartan Stores and Nash-Finch will continue to maintain an administrative presence in Grand Rapids, Michigan, Minneapolis, Minnesota and Norfolk, Virginia. While we have assumed that a certain level of expenses would be incurred, there are many factors beyond their control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that the combined company expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings. These integration expenses likely will result in the combined company taking significant charges against earnings following the completion of the merger, and the amount and exact timing of such charges are uncertain at present.

***The combined company is more highly leveraged than Spartan Stores formerly was.***

The increased indebtedness and higher debt-to-equity ratio of the combined company in comparison to that of Spartan Stores before the merger with Nash-Finch on a historical basis will have the potential effect, among other things, to reduce the flexibility of Spartan Stores to respond to changing business and economic conditions and may increase borrowing costs.

***Restrictive covenants imposed by our credit facility and other factors could adversely affect our ability to borrow.***

Our ability to borrow additional funds is governed by the terms of our credit facilities. The credit facilities contain financial and other covenants that, among other things, limit the Company s ability to draw down the full amount of the facility, incur additional debt outside of the credit facility, create new liens on property, make acquisitions, or pay dividends. These covenants may affect our operating flexibility and may require us to seek the consent of the lenders to certain transactions that we may wish to effect. We are not currently restricted by these covenants. Disruptions in the financial markets have in the past resulted in bank failures. One or more of the participants in our credit facility could become unable to fund our future borrowings when needed. We believe that cash generated from operating activities and available borrowings under our credit facility will be sufficient to meet anticipated requirements for working capital, capital expenditures, and debt service obligations for the foreseeable future. However, there can be no assurance that our business will continue to generate cash flow at or above current levels or that we will maintain our ability to borrow under our credit facility. The Company may not be able to refinance its existing debt at similar terms.

***The financing arrangements that the combined company entered into in connection with the merger contain restrictions and limitations that could significantly impact SpartanNash s ability to operate its business.***

SpartanNash has incurred significant new indebtedness in connection with the merger. The agreements governing the indebtedness of the combined company incured in connection with the merger contain covenants that, among other things, may, under certain circumstances, place limitations on the dollar amounts paid or other actions relating to:

- payments in respect of, or redemptions or acquisitions of, debt or equity issued by the combined company or its subsidiaries, including the payment of dividends on SpartanNash common stock;

- incurring additional indebtedness;

- incurring guarantee obligations;

- paying dividends;
- creating liens on assets;
- entering into sale and leaseback transactions;
- making investments, loans or advances;
- entering into hedging transactions;
- engaging in mergers, consolidations or sales of all or substantially all of their respective assets; and
- engaging in certain transactions with affiliates.

***Maintaining our reputation and corporate image is essential to our business success.***

Our success depends on the value and strength of our corporate name and reputation. Our name, reputation and image are integral to our business as well as to the implementation of our strategies for expanding our business. Our business prospects, financial condition and results of operations could be adversely affected if our public image or reputation were to be tarnished by negative publicity including dissemination via print, broadcast or social media, or other forms of Internet-based communications. Adverse publicity about regulatory or legal action against us could damage our reputation and image, undermine our customers confidence and reduce long-term demand for our products and services, even if the regulatory or legal action is unfounded or not material to our operations. Any of these events could have a negative impact on our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We have corporate offices that are located in Grand Rapids, Michigan and Minneapolis, Minnesota consisting of approximately 286,100 square feet of office space in buildings which we own. We also lease four additional off-site storage facilities consisting of approximately 63,300 square feet.

***Military Segment***

The table below lists the locations and sizes of our facilities used in our Military segment. Unless otherwise indicated, we own each of these distribution centers. The lease expiration dates range from August 2014 to November 2029. There is a month to month lease for additional freezer space at our Norfolk, Virginia facility.

| **Location** | **Approx. Size (Square Feet)** |
|---|---|
| Norfolk, Virginia (1) | 818,094 |
| Landover, Maryland (2) | 368,088 |
| Columbus, Georgia (3) | 531,900 |
| Pensacola, Florida | 355,900 |

| | |
|---|---|
| Bloomington, Indiana (4) | 591,277 |
| Junction City, Kansas | 132,000 |
| Oklahoma City, Oklahoma | 608,543 |
| San Antonio, Texas | 486,820 |
| Total Square Footage | 3,892,622 |

(1) Includes 273,021 square feet that we lease.
(2) Leased facility.

(3) Leased location requiring periodic lease payments to the holder of the outstanding industrial revenue bond. As of December 28, 2013, the outstanding industrial revenue bond associated with this location was held by SpartanNash, and upon expiration of the lease terms, SpartanNash will take title to the property upon redemption of the outstanding bond.
(4) Includes 120,000 square feet that we lease.

We believe that our distribution facilities are generally well maintained, are generally in good operating condition, have sufficient capacity and are suitable and adequate to carry on our military business.

***Food Distribution Segment Real Estate***

The following table lists the approximate locations and sizes of our distribution centers primarily used in our Food Distribution operations. Unless otherwise indicated, we own each of these distribution centers. The lease expirations range from February 2015 to July 2016. Most of the leases have additional renewal option periods available.

| **Location** | **Approx. Size (Square Feet)** |
|---|---|
| St. Cloud, Minnesota | 329,046 |
| Fargo, North Dakota | 288,824 |
| Minot, North Dakota | 185,250 |
| Omaha, Nebraska | 686,783 |
| Sioux Falls, South Dakota (1) | 275,414 |
| Rapid City, South Dakota (2) | 193,525 |
| Lumberton, North Carolina (3) | 336,502 |
| Statesboro, Georgia (3) | 230,520 |
| Bluefield, Virginia | 187,531 |
| Bellefontaine, Ohio | 666,045 |
| Lima, Ohio (4) | 523,052 |
| Westville, Indiana | 631,944 |
| Grand Rapids, Michigan | 1,179,582 |
| Total Square Footage | 5,714,018 |

(1) Includes 79,300 square feet that we lease.
(2) Includes 6,400 square feet that we lease.
(3) Leased facility.
(4) Includes 5,500 square feet that we lease.

We believe that our distribution facilities are generally well maintained, are generally in good operating condition, have sufficient capacity and are suitable and adequate to carry on our distribution business.

***Retail Segment Real Estate***

The following table contains the retail banner, number of stores, geographic region and approximate square footage under the banner. We own the facilities of 32 of these stores and lease the facilities of 140 of these stores.

| **Grocery Store Retail Banner** | **Number of Stores** | **Geographic Region** | | **Total Square Feet** |
|---|---|---|---|---|
| Family Fare Supermarkets | 54 | Michigan | Leased | 2,257,850 |
| Sun Mart | 11 | Colorado, Minnesota, North Dakota and Nebraska | Owned | 357,043 |
| Sun Mart | 9 | Minnesota, North Dakota and Nebraska | Leased | 317,273 |
| No Frills | 17 | Iowa and Nebraska | Leased | 885,674 |
| VG s Food and Pharmacy | 12 | Michigan | Leased | 562,207 |
| VG s Food and Pharmacy | 1 | Michigan | Owned | 37,223 |
| Bag N Save | 6 | Nebraska | Owned | 366,785 |
| Bag N Save | 6 | Nebraska | Leased | 351,182 |
| Econofoods | 7 | Minnesota, Wisconsin and North Dakota | Owned | 206,971 |
| Econofoods | 5 | Minnesota and North Dakota | Leased | 151,533 |
| Glen s Markets | 11 | Michigan | Leased | 412,812 |
| D&W Fresh Markets | 8 | Michigan | Leased | 372,101 |
| D&W Fresh Markets | 2 | Michigan | Owned | 84,458 |
| Valu Land | 6 | Michigan | Leased | 135,920 |
| Family Fresh Market | 3 | Wisconsin | Owned | 150,317 |
| Family Fresh Market | 1 | Minnesota | Leased | 32,650 |
| Family Thrift Center | 3 | South Dakota | Leased | 127,107 |
| Family Thrift Center | 1 | South Dakota | Owned | 60,200 |
| Supermercado Nuestra Familia | 1 | Nebraska | Owned | 39,317 |
| Supermercado Nuestra Familia | 1 | Nebraska | Leased | 23,211 |
| Forest Hills Foods | 1 | Michigan | Leased | 50,250 |
| Pick n Save | 1 | Ohio | Leased | 45,608 |
| Germantown Fresh Market | 1 | Ohio | Leased | 31,764 |
| Prairie Market | 1 | South Dakota | Leased | 28,606 |
| Dillonvale IGA | 1 | Ohio | Leased | 25,627 |
| Madison Fresh Market | 1 | Wisconsin | Leased | 21,470 |
| Wholesale Food Outlet | 1 | Iowa | Leased | 19,620 |
| **Total** | 172 | | | 7,154,779 |

We also own three additional fuel centers that are not reflected in the square footage above: a *Family Fare Quik Stop* in Michigan that is not included at a supermarket location but is adjacent to our corporate headquarters, *FTC Express Gas* in Scottsbluff, Nebraska and *SunMart Express Gas* in Fergus Falls, Minnesota. Also not accounted for in the tables above are stand-alone pharmacies in Cannon Falls, Minnesota and Clear Lake, Iowa.

**Item 3. Legal Proceedings**

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 is styled Greenblatt v. Nash-Finch Co. et al., Case No. 27-cv-13-13710. That complaint was amended on August 28, 2013, after Spartan Stores 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 provides for inadequate consideration under circumstances involving certain alleged conflicts of interest; that the merger agreement includes allegedly preclusive deal protection provisions; and that Nash-Finch and Spartan Stores allegedly aided and abetted the directors in breaching their duties to Nash-Finch s stockholders. Both 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 believes that these lawsuits are 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 provides that Nash-Finch will 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 is 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. A hearing before the State Court on the unopposed motion for preliminary approval is set for May 20, 2014. There can be no assurance that the State Court will grant the unopposed motion and ultimately approve the Settlement Stipulation. In such event, the Settlement Stipulation will be null and void and of no force and effect.

Various lawsuits and claims, arising in the ordinary course of business, are pending or have been asserted against SpartanNash. While the ultimate effect of such lawsuits and claims cannot be predicted with certainty, management believes that their outcome will not result in an adverse effect on the consolidated financial position, operating results or liquidity of SpartanNash.

**Item 4. Mine Safety Disclosure**

Not Applicable

**PART II**

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

SpartanNash common stock is traded on the NASDAQ Global Select Market under the trading symbol SPTN.

Stock sale prices are based on transactions reported on the NASDAQ Global Select Market. Information on quarterly high and low sales prices for SpartanNash common stock appears in Note 18 to the consolidated financial statements and is incorporated here by reference. At March 7, 2014, there were approximately 1,462 shareholders of record of SpartanNash common stock. SpartanNash has paid a quarterly cash dividend since the fourth quarter of fiscal 2006.

The table below outlines current Board of Directors anticipated increases in the quarterly dividend:

| Effective Quarter | Dividend per common share |
|---|---|
| 4th quarter Fiscal March 30, 2012 | $ 0.05 |
| 1st quarter Fiscal March 31, 2012 | 0.065 |
| 1st quarter Fiscal March 30, 2013 | 0.08 |
| 1st quarter Fiscal December 28, 2013 | 0.09 |
| 1st quarter Fiscal January 3, 2015 | 0.12 |

Under its senior revolving credit facility, SpartanNash is generally permitted to pay dividends in any fiscal year up to an amount such that all cash dividends, together with any cash distributions, prepayments of its Senior Notes or share repurchases, do not exceed $25.0 million. Additionally, SpartanNash is generally permitted to pay cash dividends in excess of $25.0 million in any fiscal year so long as its Excess Availability, as defined in the senior revolving credit facility is in excess of 15% of the Total Borrowing Base before and after giving effect to the prepayments, repurchases and dividends. 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. The ability of the Board of Directors to continue to declare dividends will depend on a number of factors, including our future financial condition and profitability and compliance with the terms of our credit facilities. In May 2011, the Board of Directors authorized a five-year share repurchase program for up to $50 million of SpartanNash s common stock. During fiscal years ended March 30, 2013 and March 31, 2012, the Company repurchased 634,408 and 687,200 shares of common stock for approximately $11.4 million and $12.4 million, respectively. SpartanNash did not repurchase any shares under this program during the 39 week period ended December 28, 2013. The approximate dollar value of shares that may yet be purchased under the repurchase plan was $26.2 million as of September 14, 2013.

The equity compensation plans table in Item 12 is here incorporated by reference.

The following table provides information regarding Spartan Stores purchases of its own common stock during the last quarter of the 39 week period ended December 28, 2013. Spartan Stores did not repurchase shares of common stock under the share repurchase program during the quarter ended December 28, 2013. All employee transactions are under associate stock compensation plans. These may include: (1) shares of SpartanNash 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 |
|---|---|---|
| September 15 October 12, 2013 | | |
| Employee Transactions | | $ |
| Repurchase Program | | $ |
| October 13 November 9, 2013 | | |
| Employee Transactions | | $ |
| Repurchase Program | | $ |
| November 10 December 7, 2013 | | |
| Employee Transactions | 583,137 | $ 23.55 |
| Repurchase Program | | $ |
| December 8 December 28, 2013 | | |
| Employee Transactions | | $ |
| Repurchase Program | | $ |
| Total for Quarter ended December 28, 2013 | | |
| Employee Transactions | 583,137 | $ 23.55 |
| Repurchase Program | | $ |

***Performance Graph***

Set forth below is a graph comparing the cumulative total shareholder return on SpartanNash common stock to that of the Russell 2000 Total Return Index and the NASDAQ Retail Trade Index, over a period beginning March 27, 2009 and ending on December 28, 2013.

Cumulative total return is measured by the sum of (1) the cumulative amount of dividends for the measurement period, assuming dividend reinvestment and (2) the difference between the share price at the end and the beginning of the measurement period, divided by the share price at the beginning of the measurement period.

The dollar values for total shareholder return plotted above are shown in the table below:

| | March 27, 2009 | March 26, 2010 | March 26, 2011 | March 31, 2012 | March 30, 2013 | December 28, 2013 |
|---|---|---|---|---|---|---|
| SpartanNash | $ 100.00 | $ 96.90 | $ 102.12 | $ 124.75 | $ 123.26 | $ 168.82 |
| Russell 2000 Total Return Index | 100.00 | 160.28 | 196.83 | 201.25 | 234.14 | 288.53 |
| NASDAQ Retail Trade | 100.00 | 149.55 | 172.59 | 225.21 | 244.72 | 291.48 |

The information set forth under the Heading Performance Graph shall not be deemed to be soliciting material or to be filed with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act, except to the extent that the registrant specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act or the Exchange Act.

**Item 6. Selected Financial Data**

The following table provides selected historical consolidated financial information of SpartanNash. The historical information was derived from our audited consolidated financial statements as of and for each of the five fiscal years ended March 27, 2010 through December 28, 2013. The transition fiscal year ended December 28, 2013 consisted of 39 weeks; fiscal year ended March 31, 2012 consisted of 53 weeks and all other years presented consisted of 52 weeks. The unaudited 40 week period ended January 5, 2013 is included in the table below for comparison purposes to the 39 week transition period ended December 28, 2013.

| (In thousands, except per share data) | December 28, 2013 (A) 39 weeks | January 5, 2013 (unaudited) 40 weeks | Year Ended March 30, 2013 52 weeks | Year Ended March 31, 2012 53 weeks | Year Ended March 26, 2011 52 weeks | Year Ended March 27, 2010 52 weeks |
|---|---|---|---|---|---|---|
| **Statements of Earnings Data:** | | | | | | |
| Net sales | 2,597,230 | $ 2,015,351 | $ 2,608,160 | $ 2,634,226 | $ 2,533,064 | $ 2,551,956 |
| Cost of sales | 2,110,350 | 1,602,450 | 2,062,616 | 2,078,116 | 1,976,549 | 1,993,306 |
| Gross profit | 486,880 | 412,901 | 545,544 | 556,110 | 556,515 | 558,650 |
| Selling, general and administrative expenses | 433,450 | 370,337 | 482,987 | 489,650 | 488,017 | 493,832 |
| Merger transaction and integration expenses | 20,993 | | | | | |
| Restructuring, asset impairment and other (B) | 15,644 | 356 | 1,589 | (23) | 532 | 6,154 |
| Operating earnings | 16,793 | 42,208 | 60,968 | 66,483 | 67,966 | 58,664 |
| Interest expense | 9,219 | 10,420 | 13,410 | 15,037 | 15,104 | 16,394 |
| Debt extinguishment | 5,527 | 2,285 | 5,047 | | | |
| Other, net | (23) | (752) | (756) | (110) | (97) | (138) |
| Earnings before income taxes and discontinued operations | 2,070 | 30,255 | 43,267 | 51,556 | 52,959 | 42,408 |
| Income taxes | 841 | 10,352 | 15,425 | 19,686 | 20,420 | 16,475 |
| Earnings from continuing operations | 1,229 | 19,903 | 27,842 | 31,870 | 32,539 | 25,933 |
| Loss from discontinued operations, net of taxes (C) | (488) | (195) | (432) | (112) | (232) | (375) |
| Net earnings | $ 741 | $ 19,708 | $ 27,410 | $ 31,758 | $ 32,307 | $ 25,558 |
| Basic earnings from continuing operations per share | $ 0.05 | $ 0.91 | $ 1.28 | $ 1.40 | $ 1.44 | $ 1.16 |
| Diluted earnings from continuing operations per share | 0.05 | 0.91 | 1.27 | 1.39 | 1.43 | 1.15 |
| Basic earnings per share | 0.03 | 0.90 | 1.26 | 1.39 | 1.43 | 1.14 |
| Diluted earnings per share | 0.03 | 0.90 | 1.25 | 1.39 | 1.42 | 1.14 |
| Cash dividends declared per share | 0.27 | 0.24 | 0.32 | 0.26 | 0.20 | 0.20 |
| **Balance Sheet Data:** | | | | | | |
| Total assets | $ 1,998,674 | $ 794,561 | $ 789,667 | $ 763,473 | $ 751,396 | $ 753,481 |
| Property and equipment, net | 651,477 | 272,368 | 272,126 | 256,776 | 241,448 | 247,961 |
| Working capital | 389,770 | 35,916 | 13,179 | 24,684 | 47,300 | 15,739 |
| Long-term debt and capital lease obligations | 597,563 | 166,843 | 145,876 | 133,565 | 170,711 | 181,066 |
| Shareholders equity | 706,873 | 329,343 | 335,655 | 323,608 | 305,505 | 273,905 |

(A) See Note 2 to Consolidated Financial Statements regarding the merger with Nash-Finch Company.
(B) See Note 4 to Consolidated Financial Statements.
(C) See Note 16 to Consolidated Financial Statements.

Historical data is not necessarily indicative of SpartanNash s future results of operations or financial condition. See discussion of Risk Factors in Part I, Item 1A of this report, Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report, and the Consolidated Financial Statements and notes thereto in Part II, Item 8 of this Annual Report on Form 10-K.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*Executive Overview*

SpartanNash is a Fortune 500 company headquartered in Grand Rapids, Michigan. Our business consists of three primary operating segments: Military, Food Distribution and Retail. We are a leading regional grocery distributor and grocery retailer, operating principally in the Midwest and the largest distributor of food to military commissaries and exchanges.

On November 19, 2013, Spartan Stores, Inc. merged with Nash-Finch Company. Under the terms of the merger agreement, each share of Nash-Finch common stock was converted into 1.2 shares of Spartan Stores common stock. The results of operations of Nash-Finch are included in the accompanying consolidated financial statements from the date of merger. Following the merger, Nash-Finch Company is a wholly-owned subsidiary of SpartanNash.

Our Military segment contracts with manufacturers to distribute a wide variety of grocery products to military commissaries and exchanges located in the United States, the District of Columbia, Europe, Puerto Rico, Cuba, the Azores, Egypt and Bahrain. We have over 30 years of experience acting as a distributor to U.S. military commissaries and exchanges. We are the largest distributor, by revenue, delivering to military commissaries.

Our Food Distribution segment provides a wide variety of nationally branded and private label grocery products and perishable food products including dry groceries, produce, dairy products, meat, deli, bakery, frozen food, seafood, floral products, general merchandise, pharmacy and health and beauty care from 13 distribution centers to approximately 1,900 independent retail locations and corporate-owned retail stores located in 24 states, primarily in the Midwest, Great Lakes, and Southeast regions of the United States.

Our Retail segment operates 172 supermarkets in the Midwest which operate primarily under the banners of *Family Fare Supermarkets, No Frills, Bag N Save, Family Fresh Markets, D&W Fresh Markets, Sun Mart* and *Econofoods.* Our retail supermarkets typically offer dry groceries, produce, dairy products, meat, frozen food, seafood, floral products, general merchandise, beverages, tobacco products, health and beauty care products, delicatessen items and bakery goods. We offer pharmacy services in 90 of our supermarkets and we operate 34 fuel centers. Our retail supermarkets have a neighborhood market focus to distinguish them from supercenters and limited assortment stores.

Historically, our fiscal year end was the last Saturday in March. Our fiscal year end was changed to the Saturday closest to the end of December beginning with the transition year ended December 28, 2013. The transition fiscal year ended December, 28 2013 consisted of 39 weeks; therefore, the third and final quarter of the transition year consisted of 15 weeks rather than 16 weeks. Fiscal year ended March 31, 2012 consisted of 53 weeks; therefore, the fourth quarter of fiscal 2012 consisted of 13 weeks rather than 12 weeks. Under our December fiscal year format, all quarters are 12 weeks, except for our first quarter, which is 16 weeks and will generally include the Easter holiday. Our fourth quarter includes the Thanksgiving and Christmas holidays. Under the March fiscal year format, all quarters consisted of 12 weeks except for the third quarter which consisted of 16 weeks and included the Thanksgiving and Christmas holiday.

In certain markets, our sales and operating performance vary with seasonality. Many stores are dependent on tourism and therefore, are most affected by seasons and 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. In our Michigan market, under our new fiscal year format, our first and second quarters are typically our lowest sales quarters. Therefore, operating results are generally lower during these two quarters.

SpartanNash has established key management priorities that focus on the longer-term strategy of the Company, including establishing a well-differentiated market offering for our Food Distribution, Military and Retail segments, and additional strategies designed to create value for our shareholders, retailers and customers. These priorities are:

***Military:***

- Leverage the size and scale of the existing distribution and retail segments to attract additional customers.
- Continue to partner with Coastal Pacific Food Distributors to leverage the advantage of a worldwide distribution network.

***Food Distribution:***

- Leverage new competitive position, scale and financial flexibility to further consolidate the distribution channel.
- Leverage retail competency and the capabilities of the combined distribution platform to increase business within the existing account base and potentially add new distribution categories and take advantage of current competitive market dynamics to supply new customers.
- Continue to focus on increasing private brand penetration and overall customer purchase concentration.

***Retail:***

- Evaluate banners to maintain a portfolio of customer-relevant offerings for the entire market continuum.
- Continue to drive a lean and efficient operating cost structure to remain competitive.
- Rationalize store base to maximize capital efficiency and enhance profitability.
- Strategically deploy capital to modernize the store base
- Pursue opportunistic roll-ups of existing distribution customers and/or other retailers.
- Drive value by expanding consumer relationships with pharmacy, fuel and other promotional offerings.

We continued the execution of our capital investment program in the 39 week period ended December 28, 2013 by opening one new *ValuLand* store, completing one major remodel, refreshing and converting 12 stores to the *Family Fare* banner and acquiring two stores in Dickinson, North Dakota. We also closed seven underperforming stores. In addition, we installed six Automated Guided Vehicles (AGVs) in our Grand Rapids, Michigan grocery warehouse distribution center.

We are making progress in our work to integrate our retail, food distribution and military distribution businesses. We continue to expect synergies of approximately $20 million, $35 million and $52 million in fiscal years 2014, 2015 and 2016, respectively, and integration and transaction closing related costs of approximately $12 million, $5 million and $2 million in fiscal years 2014, 2015 and 2016, respectively. We also expect additional depreciation, amortization and stock compensation expense resulting from the step-up in basis of the Nash-Finch assets and amendments to our stock compensation plan to approximate $10 million annually.

Our outlook for fiscal 2014 is cautiously optimistic as the economy continues to show modest improvement; however, we expect that the lack of inflation, curtailment of Supplemental Nutrition Assistance Program ( SNAP ) benefits and the cycling of very favorable LIFO, insurance and employee benefit expenses in the prior year first quarter and a more challenging competitive retail environment will create a negative headwind on our results. We expect to implement a capital plan that will allow us to create positive momentum for the merged organization to address these headwinds. During fiscal 2014, we plan to complete a total of five minor remodels and ten major remodels, 16 store rebanners, two fuel centers, as well as begin construction on two new stores in new markets with attractive growth profiles. In addition, we will complete a major expansion of a military distribution center, which should increase our geographic reach and further improve our operational efficiencies. We will also continue to evaluate our store base and may close up to ten stores over the course of fiscal 2014.

For the 16 week first quarter of fiscal 2014, we anticipate that consolidated net sales will increase to between to $2.30 billion and $2.34 billion as we continue to benefit from the merger with Nash-Finch, partially offset by the impact of store closures. We anticipate comparable store sales in our legacy retail segment to be positive for the third consecutive quarter.

We expect first quarter of fiscal 2014 adjusted EBITDA will be in the range of $62.5 million to $66.5 million and adjusted earnings per diluted share from continuing operations will be in the range of $0.33 to $0.38, based on approximately 37.7 million shares outstanding. This guidance includes approximately $3.8 million in after-tax merger synergy benefits and $2.8 million in after-tax incremental depreciation, amortization and stock compensation expense related to the step-up in basis of the Nash-Finch assets and amendments to the our stock compensation plan and excludes approximately $3.4 million in after-tax integration expenses, $1.3 million in after-tax restructuring charges associated with store closures and the closure of the Cincinnati, Ohio distribution center.

For the 53 week fiscal year ending January 3, 2015, we anticipate that consolidated net sales will increase to between $7.90 billion and $8.04 billion, adjusted EBITDA will be in the range of $230.0 million to $239.0 million and earnings per share from continuing operations will be approximately $1.65 to $1.75, excluding integration costs of approximately $7.4 million after-tax and any other one-time expenses. These results would be accretive to the trailing 13 period earnings of Spartan Stores Inc. excluding the impacts of the merger. We expect that reported retail comparable store sales will be positive for the year . However, total sales will be negatively impacted by approximately $50.0 million resulting from the store closures occurring in the third quarter of the 39 week period ended December 28, 2013. Capital expenditures for fiscal year 2014 are expected to be in the range of $77 million to $82 million, with depreciation and amortization in the range of $89 million to $93 million and total interest expense in the range of $26 million to $28 million.

The matters discussed in this Item 7 include forward-looking statements. See Forward-Looking Statements at the beginning and Risk Factors in Item 1A of this Annual Report on Form 10-K.

***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:

| | Percentage of Net Sales | | | | Percentage Change | |
|---|---|---|---|---|---|---|
| | **December 28, 2013** | **January 5, 2013** | **March 30, 2013** | **March 31, 2012** | **1/5/13 to 12/28/13** | **3/31/12 to 3/30/13** |
| Net sales | 100.0 | 100.0 | 100.0 | 100.0 | 28.9 | (1.0) |
| Gross profit | 18.7 | 20.5 | 20.9 | 21.1 | 17.9 | (1.9) |
| Selling, general and administrative expenses | 17.5 | 18.4 | 18.5 | 18.6 | 22.7 | (1.4) |
| Restructuring, asset impairment and other | 0.6 | 0.0 | 0.1 | 0.0 | ** | ** |
| Operating earnings | 0.6 | 2.1 | 2.3 | 2.5 | (60.2) | (8.3) |
| Other income and expenses | 0.5* | 0.6 | 0.6* | 0.5* | 23.2 | 18.6 |
| Earnings before income taxes and discontinued operations | 0.1 | 1.5 | 1.7 | 2.0 | (93.2) | (16.1) |
| Income taxes | 0.1* | 0.5 | 0.6 | 0.8* | (91.9) | (21.6) |
| Earnings from continuing operations | 0.0 | 1.0 | 1.1 | 1.2 | (93.8) | (12.6) |
| Loss from discontinued operations, net of taxes | (0.0) | (0.0) | (0.0) | (0.0) | ** | ** |
| Net earnings | 0.0 | 1.0 | 1.1 | 1.2 | (96.2) | (13.7) |

* Difference due to rounding
** Percentage change is not meaningful

***Adjusted Operating Earnings***

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

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

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

Following is a reconciliation of operating earnings to adjusted operating earnings for the 39 week period ended December 28, 2013 and the fiscal years ended March 30, 2013 and March 31, 2012. For comparison purposes we have also provided a reconciliation of operating earnings from continuing operations to adjusted operating earnings from continuing operations for the 40 weeks ended January 5, 2013.

| (Unaudited) | Period Ended | | Year Ended | |
|---|---|---|---|---|
| **(In thousands)** | **December 28, 2013 (39 weeks)** | **January 5, 2013 (40 weeks)** | **March 30, 2013 (52 weeks)** | **March 31, 2012 (53 weeks)** |
| Operating earnings | $ 16,793 | $ 42,208 | $ 60,968 | $ 66,483 |
| Add: | | | | |
| Asset impairment and restructuring charges | 15,644 | 356 | 1,589 | |
| Expenses related to merger transaction and integration | 20,993 | | | |
| Non-recurring professional fees | | | | 1,194 |
| Pension settlement accounting | 621 | | | |
| Acquisition related professional fees | | 396 | 396 | |
| Stock compensation modifications | 4,174 | | | |
| Professional fees related to tax planning | | 108 | 108 | |
| Gain on sale of assets | (1,038) | | | (545) |
| 40th week of period ended January 5, 2013 | | (756) | | |
| 53rd week | | | | (2,429) |
| Adjusted operating earnings | $ 57,187 | $ 42,312 | $ 63,061 | $ 64,703 |
| **Reconciliation of operating earnings to adjusted operating earnings by segment:** | | | | |
| Military: | | | | |
| Operating earnings | $ 3,202 | $ | $ | $ |
| Add: | | | | |
| Adjusted operating earnings | $ 3,202 | $ | $ | $ |
| Food Distribution: | | | | |
| Operating earnings | $ 9,266 | $ 28,164 | $ 45,630 | $ 44,292 |
| Add: | | | | |
| Asset impairment and restructuring charges | 599 | | | |
| Expenses related to merger transaction and integration | 20,993 | | | |
| Pension settlement accounting | 473 | | | |
| Non-recurring professional fees | | | | 1,194 |
| Stock compensation modifications | 3,961 | | | |
| Professional fees related to tax planning | | 108 | 108 | |
| 40th week of period ended January 5, 2013 | | (463) | | |
| 53rd week | | | | (932) |
| Adjusted operating earnings | $ 35,292 | $ 27,809 | $ 45,738 | $ 44,554 |
| Retail: | | | | |
| Operating earnings | $ 4,325 | $ 14,044 | $ 15,338 | $ 22,191 |
| Add: | | | | |
| Asset impairment and restructuring charges | 15,045 | 356 | 1,589 | |
| Pension settlement accounting | 148 | | | |
| Acquisition related professional fees | | 396 | 396 | |
| Stock compensation modifications | 213 | | | |
| Gain on sale of assets | (1,038) | | | (545) |
| 40th week of period ended January 5, 2013 | | (293) | | |
| 53rd week | | | | (1,497) |

| | | | | |
|---|---|---|---|---|
| Adjusted operating earnings | $ 18,693 | $ 14,503 | $ 17,323 | $ 20,149 |

***Adjusted earnings from Continuing Operations***

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

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

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

Following is a reconciliation of earnings from continuing operations to adjusted earnings from continuing operations for the 39 week period ended December 28, 2013 and the fiscal years ended March 30, 2013 and March 31, 2012. For comparison purposes we have also provided a reconciliation of earnings from continuing operations to adjusted earnings from continuing operations for the 40 weeks ended January 5, 2013.

| | Period Ended | | | |
|---|---|---|---|---|
| | December 28, 2013 (39 weeks) | | January 5, 2013 (40 weeks) | |
| **(Unaudited)**<br>**(In thousands, except per share data)** | **Earnings from continuing operations** | **Earnings from continuing operations per diluted share** | **Earnings from continuing operations** | **Earnings from continuing operations per diluted share** |
| Earnings from continuing operations | $ 1,229 | $ 0.05 | $ 19,903 | $ 0.91 |
| Adjustments, net of taxes: | | | | |
| Asset impairment and restructuring charges | 9,702 | 0.40 | 225 | 0.01 |
| Expenses related to merger transaction and integration | 15,179 | 0.63 | | |
| Pension settlement accounting | 385 | 0.02 | | |
| Acquisition related professional fees | | | 250 | 0.01 |
| Stock compensation modifications | 2,589 | 0.11 | | |
| Gain on sale of assets | (644) | (0.03) | (422) | (0.02) |
| Debt extinguishment | 3,428 | 0.14 | 1,443 | 0.07 |
| Tax benefit related to change in state deferred tax rate | (2,418) | (0.10) | | |
| Unrecognized tax liability | 595 | 0.02 | | |
| Favorable settlement of unrecognized tax liability | (244) | (0.01) | | |
| Impact of state tax law changes | | | (623) | (0.03) |
| Impact of 40$^{th}$ week of period ended January 5, 2013 | | | (309) | (0.01) |
| Adjusted earnings from continuing operations | $ 29,801 | $ 1.23 | $ 20,467 | $ 0.94 |

| | Year Ended | | | |
|---|---|---|---|---|
| | March 30, 2013 (52 weeks) | | March 31, 2012 (53 weeks) | |
| **(In thousands, except per share data)** | **Earnings from continuing operations** | **Earnings from continuing operations per diluted share** | **Earnings from continuing operations** | **Earnings from continuing operations per diluted share** |
| Earnings from continuing operations | $ 27,842 | $ 1.27 | $ 31,870 | $ 1.39 |
| Adjustments, net of taxes: | | | | |
| Non-recurring professional fees | | | 750 | 0.03 |
| Acquisition related professional fees | 247 | 0.01 | | |
| Asset impairment and restructuring charges | 992 | 0.05 | | |
| Gain on sale of assets | (417) | (0.02) | (342) | (0.01) |
| Interest rate swap termination | | | 487 | 0.02 |
| Debt extinguishment | 3,152 | 0.15* | | |
| Impact of state tax law changes | (642) | (0.03) | 518 | 0.02 |
| Impact of 53rd week | | | (1,380) | (0.06) |
| Adjusted earnings from continuing operations | $ 31,174 | $ 1.43 | $ 31,903 | $ 1.39 |

* Difference due to rounding

***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 SpartanNash and costs associated with the closing of operational locations, interest expense and the provision for income taxes to the extent deducted in the computation of net earnings.

We believe that adjusted EBITDA provides a meaningful representation of our operating performance for SpartanNash 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 distribution and retail 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 and adjusted EBITDA by segment are performance measures that management uses to allocate resources, assess performance against its peers, and evaluate overall performance, we believe it provides useful information for our investors. In addition, securities analysts, fund managers and other shareholders and stakeholders that communicate with us request our operating financial results in adjusted EBITDA format.

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

Following is a reconciliation of net earnings to adjusted EBITDA for the 39 week period ended December 28, 2013 and the fiscal years ended March 30, 2013 and March 31, 2012. For comparison purposes we have also provided a reconciliation of net earnings to adjusted EBITDA for the 40 weeks ended January 5, 2013.

| **(Unaudited)** | **Period Ended** | | **Year Ended** | |
|---|---|---|---|---|
| **(In thousands)** | **December 28, 2013 (39 weeks)** | **January 5, 2013 (40 weeks)** | **March 30, 2013 (52 weeks)** | **March 31, 2012 (53 weeks)** |
| Net earnings | $ 741 | $ 19,708 | $ 27,410 | $ 31,758 |
| Add: | | | | |
| Discontinued operations | 488 | 195 | 432 | 112 |
| Income taxes | 841 | 10,352 | 15,425 | 19,686 |
| Interest expense | 9,219 | 10,420 | 13,410 | 15,037 |
| Debt extinguishment | 5,527 | 2,285 | 5,047 | |
| Non-operating income | (23) | (752) | (756) | (110) |
| Operating earnings | 16,793 | 42,208 | 60,968 | 66,483 |
| Add: | | | | |
| LIFO expense | 928 | 984 | 335 | 1,401 |
| Depreciation and amortization | 37,082 | 29,499 | 39,081 | 36,794 |
| Restructuring and asset impairment charges | 15,644 | 356 | 1,589 | (23) |
| Expenses related to merger transaction and Integration | 20,993 | | | |
| Pension settlement accounting | 621 | | | |
| Non-recurring professional fees | | | | 1,194 |
| Acquisition related professional fees | | 396 | 396 | |
| Non-cash stock compensation and other | 5,242 | 3,249 | 3,964 | 3,825 |
| 40th week of period ended January 5, 2013 | | (767) | | |
| 53rd week | | | | (2,429) |
| Adjusted EBITDA | $ 97,303 | $ 75,925 | $ 106,333 | $ 107,245 |
| **Reconciliation of operating earnings to adjusted EBITDA by segment:** | | | | |
| Military: | | | | |
| Operating earnings | $ 3,202 | $ | $ | $ |
| Add: | | | | |
| Depreciation and amortization | 1,371 | | | |
| Non-cash stock compensation and other | (6) | | | |
| Adjusted EBITDA | $ 4,567 | | | |
| Food Distribution: | | | | |
| Operating earnings | $ 9,266 | $ 28,164 | $ 45,630 | $ 44,292 |
| Add: | | | | |
| LIFO expense (income) | 289 | (80) | (601) | (463) |
| Depreciation and amortization | 9,547 | 6,597 | 8,712 | 8,444 |
| Restructuring and asset impairment charges | 599 | | | (37) |
| Expenses related to merger transaction and Integration | 20,993 | | | |
| Pension settlement accounting | 473 | | | |
| Non-recurring professional fees | | | | 1,194 |
| Non-cash stock compensation and other | 4,913 | 1,235 | 1,430 | 2,284 |
| 40th week of period ended January 5, 2013 | | (439) | | |
| 53rd week | | | | (932) |
| Adjusted EBITDA | $ 46,080 | $ 35,477 | $ 55,171 | $ 54,782 |
| Retail: | | | | |
| Operating earnings | $ 4,325 | $ 14,044 | $ 15,338 | $ 22,191 |
| Add: | | | | |
| LIFO expense | 639 | 1,064 | 936 | 1,864 |
| Depreciation and amortization | 26,164 | 22,902 | 30,369 | 28,350 |
| Restructuring and asset impairment charges | 15,045 | 356 | 1,589 | 14 |

| | | | | |
|---|---|---|---|---|
| Pension settlement accounting | 148 | | | |
| Acquisition related professional fees | | 396 | 396 | |
| Non-cash stock compensation and other | 335 | 2,014 | 2,534 | 1,541 |
| 40th week of period ended January 5, 2013 | | (328) | | |
| 53rd week | | | | (1,497) |
| Adjusted EBITDA | $ 46,656 | $ 40,448 | $ 51,162 | $ 52,463 |

***Results of Continuing Operations for the 39 Week Period Ended December 28, 2013 Compared to the Unaudited 40 Week Period Ended January 5, 2013***

***Net Sales***. Net sales for the 39 week period ended December 28, 2013 increased $581.9 million, or 28.9%, from $2,015.4 million in the 40 week period ended January 5, 2013, to $2,597.2 million. The sales increase was primarily driven by the merger with Nash-Finch Company which added $563.2 million and incremental sales related to new retail stores and new Food Distribution customers, partially offset by the additional week in the prior year period which accounted for $46.1 million of sales.

Net sales in our Military segment were $248.6 million from the date of the merger with Nash-Finch Company to December 28, 2013.

Net sales on a 39 week basis in our Food Distribution segment, after intercompany eliminations, increased $250.9 million, or 29.7%, from $844.8 million to $1,095.8 million primarily due to additional sales of $224.6 million resulting from the merger and new business sales. Food Distribution segment net sales for 40 weeks ended January 5, 2013 as reported were $863.7 million.

Net sales on a 39 week basis in our Retail segment increased $128.4 million, or 11.4%, from $1,124.4 million to $1,252.8 million. The sales increase was primarily due to sales of $90.0 million resulting from the merger, sales from new and acquired stores, increased fuel center sales resulting from new fuel centers (including one acquired fuel center) partially offset by lower fuel sales prices, closed stores and a decrease in supermarket comparable store sales of $5.7 million. Retail segment net sales for 40 weeks ended January 5, 2013 as reported were $1,151.6 million.

Total retail comparable store sales, excluding fuel centers, on a 39 week basis decreased approximately 0.6 percent in the 39 week period ended December 28, 2013. We define a retail store as comparable when it is in operation for 14 accounting periods (a period equals four weeks), and we include remodeled, expanded and relocated stores in comparable stores.

***Gross Profit***. Gross profit represents net sales less cost of sales, which include purchase costs, freight, physical inventory adjustments, markdowns 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 profit increased by $74.0 million, or 17.9%, from $412.9 million to $486.9 million. Excluding the 40th week from the period ended January 5, 2013, and excluding the gross profit resulting from the Nash-Finch merger in the 39 week period ended December 28, 2013 of $68.9 million, gross profit increased $14.6 million, or 3.6%. As a percent of net sales, gross profit decreased from 20.5% to 18.7%. The gross profit rate decrease was principally driven by sales mix due to the merger with Nash-Finch.

***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, including the merger transaction and integration expenses, increased $92.9 million, or 25.7%, from $361.5 million to $454.4 million, and were 17.5% of net sales compared to 19.3% last year, when excluding the 40$^{th}$ week from the prior year period. The net increase in SG&A on a 39 week basis was due primarily to $58.2 million in expenses related to the Nash Finch operations, $21.0 million in expenses related to the merger and integration efforts, higher incentive compensation expense of $4.5 million, incremental expense of $4.2 million resulting from modifications to stock compensation awards and $0.6 million resulting from pension settlement accounting. SG&A expenses for 40 weeks ended January 5, 2013 as reported were $370.4 million and were 18.4% of net sales.

***Restructuring and Asset Impairment.*** The 39 week period ended December 28, 2013 included asset impairment charges of $9.7 million related to underperforming retail stores and market deterioration in property held for future development, $4.9 million in restructuring charges related to the closure of six retail stores and $1.1 million in severance costs related to store closings and the closing of a distribution center. The 40 week period ended January 5, 2013 consisted of an asset impairment charge of $0.4 million related to an underperforming retail store.

***Interest Expense.*** Interest expense decreased $1.2 million, or 11.5%, from $10.4 million in the 40 week period ended January 5, 2013 to $9.2 million in the 39 week period ended December 28, 2013. As a percent of net sales, interest expense decreased from 0.5% to 0.4%. The decrease in interest expense was due primarily to the exchange and redemption of the Convertible Senior Notes in the fiscal year ended March 30, 2013.

***Debt Extinguishment*** Debt extinguishment charges of $5.5 million were incurred in the 39 week period ended December 28, 2013 in connection with amending and restating our senior secured revolving credit facility and repaying certain other debt instruments. In the 40 week period ended January 5, 2013, debt extinguishment charges of $2.3 million were incurred in connection with the private exchange of $40.3 million and redemption of $57.4 million of Convertible Senior Notes.

***Income Taxes.*** The effective income tax rates were 40.6% and 34.2% for the 39 week period ended December 28, 2013 and the 40 week period ended January 5, 2013, respectively. The difference from the statutory Federal rate in the period ended December 28, 2013 is due to non-deductible merger related expenses and changes in unrecognized tax liabilities, partially offset by a reduction in the state deferred tax rate. The prior year period ended January 5, 2013 differs from the Federal statutory rate due to state income taxes which included a $0.7 million net after-tax benefit due to changes in state tax laws.

***Results of Continuing Operations for the Fiscal Year Ended March 30, 2013 Compared to the Fiscal Year Ended March 31, 2012***

***Net Sales***. Net sales for the 52 week fiscal year ended March 30, 2013 decreased $26.1 million, or 1.0%, from $2,634.2 million in the 53 week fiscal year ended March 31, 2012, to $2,608.2 million. The sales decrease was primarily driven by the 53$^{rd}$ week in the fiscal year ended March 31, 2012 which accounted for $49.8 million, partially offset by increases in both the Food Distribution and Retail segments.

Net sales on a 52 week basis in our Food Distribution segment, after intercompany eliminations, increased $5.1 million, or 0.5%, from $1,115.6 million to $1,120.7 million primarily due to new business sales. Food Distribution segment net sales for fiscal year ended March 31, 2012 as reported for 53 weeks were $1,138.7 million.

Net sales on a 52 week basis in our Retail segment increased $18.7 million, or 1.3%, from $1,468.8 million to $1,487.5 million. The sales increase was primarily due to the acquisition of one supermarket late in the third quarter of the fiscal year ended March 30, 2013, increased fuel center sales of $11.3 million driven by higher retail fuel prices and an increase in volume and incremental sales from new fuel centers (including one acquired fuel center) of $2.4 million, partially offset by a decrease in supermarket comparable store sales of $6.6 million. Retail segment net sales for fiscal 2012 as reported for 53 weeks were $1,495.5 million. Total retail comparable store sales, excluding fuel centers, on a 52 week basis decreased approximately 0.5 percent in the fiscal year ended March 30, 2013 principally due to lower levels of inflation and the significant impact of the conversion from branded to generic drugs in our pharmacy operations. We define a retail store as comparable when it is in operation for 14 accounting periods (a period equals four weeks), and we include remodeled, expanded and relocated stores in comparable stores.

***Gross Profit***. Gross profit represents net sales less cost of sales, which include purchase costs, freight, physical inventory adjustments, markdowns 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 profit decreased by $10.6 million, or 1.9%, from $556.1 million for the fiscal year ended March 31, 2012 to $545.5 million for the fiscal year ended March 30, 2013. Excluding the 53rd week from the fiscal year ended March 31, 2012, gross profit decreased $1.1 million, or 0.2%, and as a percent of net sales, gross profit decreased from 21.1% to 20.9%. The gross margin rate decrease was principally due to reduced inflation-driven inventory gains at the Food Distribution segment, the prize-freeze campaign at the Retail segment, and a slightly higher mix of lower-margin fuel sales.

***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 increased $0.4 million, or 0.1%, from $482.6 million to $483.0 million, and were 18.5% of net sales compared to 18.3% last year, when excluding the 53$^{rd}$ week from the fiscal year ended March 31, 2012. The net increase in SG&A on a 52 week basis is due primarily to an increase in health care and occupancy costs, partially offset by a decrease in incentive compensation expense and unusual professional fees incurred in the fiscal year ended March 31, 2012.

***Restructuring, Asset Impairment and Other.*** Asset impairment charges of $1.6 million in the fiscal year ended March 30, 2013 were a result of the economic and competitive impacts on the financial performance of certain retail stores.

***Interest Expense.*** Interest expense decreased $1.6 million, or 10.8%, from $15.0 million to $13.4 million. As a percent of net sales, interest expense decreased from 0.6% to 0.5%. The decrease in interest expense was due primarily to a $0.8 million charge for terminating the interest rate swap agreement in the fiscal year ended March 31, 2012 and lower average outstanding borrowings.

***Debt Extinguishment*** Debt extinguishment charges of $5.0 million were incurred in the fiscal year ended March 30, 2013 in connection with the private exchange of $40.3 million and redemption of $57.4 million of Convertible Senior Notes.

***Income Taxes.*** The effective income tax rates were 35.7% and 38.2% for the fiscal year ended March 30, 2013 and the fiscal year ended March 31, 2012, respectively. The difference from the statutory Federal rate is primarily the result of state taxes and changes to the state of Michigan tax laws in the fiscal year ended March 31, 2012. The first quarter of fiscal year ended March 30, 2013 includes a $0.7 million net after-tax benefit and the first quarter of the fiscal year ended March 31, 2012 includes a net after-tax charge of $0.5 million due to these changes. Excluding these items the effective income tax rates were 37.3% and 37.2% for the fiscal year ended March 30, 2013 and the fiscal year ended March 31, 2012, respectively.

***Discontinued Operations***

Certain of our retail and food distribution operations have been recorded as 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.

***Critical Accounting Policies***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. 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 costs, retirement benefits, stock-based compensation and contingencies and litigation. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Based on our ongoing review, we make adjustments we consider appropriate under the facts and circumstances. This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements. We have discussed the development, selection and disclosure of these policies with the Audit Committee of the Board of Directors.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our financial statements. We consider the following accounting policies to represent the more critical estimates and assumptions used in the preparation of our consolidated financial statements:

***Inventories***

Inventories are valued at the lower of cost or market, the majority of which use the last-in, first-out ( LIFO ) method. The remaining inventories are valued on the first-in, first-out ( FIFO ) method. If replacement cost had been used, inventories would have been $45.1 million and $44.1 million higher at December 28, 2013 and March 30, 2013, respectively. The replacement cost method utilizes the most current unit purchase cost to calculate the value of inventories. During the 39 week period ended December 28, 2013 and the fiscal years ended March 30, 2013 and March 31, 2012, certain inventory quantities were reduced. The reductions resulted in liquidation of LIFO inventory carried at lower costs prevailing in prior years, the effect of which decreased the LIFO provision in the 39 week period ended December 28, 2013 and the fiscal years ended March 30, 2013 and March 31, 2012 by $0.1 million, $1.0 million and $3.0 million, respectively. SpartanNash accounts for its Military and Food Distribution inventory using a perpetual system and utilizes the retail inventory method ( RIM ) to value inventory for center store products in the Retail segment. Under the retail inventory method, inventory is stated at cost with cost of sales and gross margin calculated by applying a cost ratio to the retail value of inventories. Fresh, pharmacy and fuel products are accounted for at cost in the Retail segment. We evaluate inventory shortages throughout the year based on actual physical counts in our facilities. We record allowances for inventory shortages based on the results of recent physical counts to provide for estimated shortages from the last physical count to the financial statement date.

***Vendor Funds, Allowances and Credits***

We receive funds from many of the vendors whose products we buy for resale in our corporate-owned stores and to our independent retail customers. Given the highly promotional nature of the retail supermarket industry, vendor allowances are generally intended to help defray the costs of promotion, advertising and selling the vendor s products. 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. The proper recognition and timing of accounting for these items are significant to the reporting of the results of our operations. Vendor allowances are recognized as a reduction in cost of sales when the related product is sold. Lump sum payments received for multi-year contracts are amortized over the life of the contracts based on contractual terms.

***Customer Exposure and Credit Risk***

*Allowance for Doubtful Accounts  Methodology.* We evaluate the collectability of our accounts and notes receivable based on a combination of factors. In most circumstances when we become aware of factors that may indicate a deterioration in a specific customer s ability to meet its financial obligations to us (e.g., reductions of product purchases, deteriorating store conditions, changes in payment patterns), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. In determining the adequacy of the reserves, we analyze factors such as the value of any collateral, customer financial statements, historical collection experience, aging of receivables and other economic and industry factors. It is possible that the accuracy of the estimation process could be materially affected by different judgments as to the collectability based on information considered and further deterioration of accounts. If circumstances change (i.e., further evidence of material adverse creditworthiness, additional accounts become credit risks, store closures), our estimates of the recoverability of amounts due us could be reduced by a material amount, including to zero.

As of December 28, 2013, we have recorded an allowance for doubtful accounts reserve for our accounts and notes receivables of $2.0 million as compared to $1.2 million as of March 30, 2013. During the 39 week period ended December 28, 2013, we increased our allowance for doubtful account reserves by $1.1 million in addition to experiencing write-offs of $0.3 million.

*Guarantees of Debt and Lease Obligations of Others.* We have guaranteed the debt and lease obligations of certain Food Distribution customers. In the event these retailers are unable to meet their debt service payments or otherwise experience an event of default, we would be unconditionally liable for the outstanding balance of their debt and lease obligations ($1.0 million and $0 as of December 28, 2013 and March 30, 2013), which would be due in accordance with the underlying agreements. The increase in outstanding obligations during the 39 week period ended December 28, 2013 is due to the merger with Nash-Finch Company.

We have entered into loan and lease guarantees on behalf of certain Food Distribution customers that are accounted for under ASC Topic 460. ASC Topic 460 provides that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligation it assumes under that guarantee. The maximum undiscounted payments we would be required to make in the event of default under the guarantees is $1.0 million, which is referenced above. These guarantees are secured by certain business assets and personal guarantees of the respective customers. We believe these customers will be able to perform under the lease agreements and that no payments will be required and no loss will be incurred under the guarantees. As required by ASC Topic 460, a liability representing the fair value of the obligations assumed under the guarantees is included in the accompanying consolidated financial statements.

We have also assigned various leases to certain Food Distribution customers and other third parties. If the assignees were to become unable to continue making payments under the assigned leases, we estimate our maximum potential obligation with respect to the assigned leases, net of reserves, to be approximately $7.9 million as of December 28, 2013 as compared to $0 million as of March 30, 2013. In circumstances when we become aware of factors that indicate deterioration in a customer s ability to meet its financial obligations guaranteed or assigned by us, we record a specific reserve in the amount we reasonably believe we will be obligated to pay on the customer s behalf, net of any anticipated recoveries from the customer. In determining the adequacy of these reserves, we analyze factors such as those described above in  Allowance for Doubtful Accounts  Methodology  and  Lease Commitments.  It is possible that the accuracy of the estimation process could be materially affected by different judgments as to the obligations based on information considered and further deterioration of accounts, with the potential for a corresponding adverse effect on operating results and cash flows. Triggering these guarantees or obligations under assigned leases would not, however, result in cross default of our debt, but could restrict resources available for general business initiatives. Refer to Part II, Item 8 of this report under Note 14 in the Notes to Consolidated Financial Statements for more information regarding customer exposure and credit risk.

***Goodwill***

At the time of our annual goodwill impairment testing, we maintained two reporting units for purposes of our goodwill impairment testing, which were the same as our reporting segments at that time. Goodwill is reviewed for impairment on an annual basis (during the last quarter of the fiscal year), or whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Fair values are determined based on the discounted cash flows and comparable market values of each reporting segment. If the fair value of the reporting unit is less than its carrying value, the fair value of the implied goodwill is calculated as the difference between the fair value of the reporting unit and the fair value of the underlying assets and liabilities, excluding goodwill. An impairment charge is recorded for any excess of the carrying value over the implied fair value. Our goodwill impairment analysis also includes a comparison of the aggregate estimated fair value of each reporting unit to our total market capitalization. Therefore, a significant and sustained decline in our stock price could result in goodwill impairment charges. During times of financial market volatility, significant judgment is given to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances. When testing goodwill for impairment, our retail stores represent components of our Retail operating segment. Stores have been aggregated and deemed a single reporting unit as they have similar economic characteristics.

Determining market values using a discounted cash flow method requires that we make significant estimates and assumptions, including long-term projections of cash flows, market conditions and appropriate discount rates. Our judgments are based on the perspective of a market participant, historical experience, current market trends and other information. In estimating future cash flows, we rely on internally generated three-year forecasts for sales and operating profits, including capital expenditures and a 2.5% and 3.0% dden;font-size:0pt;">

$

541

N/A

Building

9,315

9,315

25

Machinery and equipment

84,083

56,962

3-7

Capitalized software

4,026

3,872

5

Office furniture and equipment

4,081

3,586

5

Leasehold improvements

12,191

9,395

Life of lease (a)

Rental equipment

582

—

5

Construction in progress

15,136

4,014

N/A

Total property and equipment

129,955

87,685

Less: Accumulated depreciation and amortization

(51,221)

(42,477)

Total property and equipment, net

$

78,734

$

45,208

[(a)] Leasehold improvements are amortized on a straight-line basis over the shorter of (i) their estimated useful lives and (ii) the estimated or contractual life of the related lease.

Depreciation and amortization expense on property and equipment for the quarter and nine months ended September 30, 2014 was $3,828 and $10,320, respectively, compared to $2,552 and $6,984, respectively, for the quarter and nine months ended September 30, 2013.

9

(5) Intangible Assets

Intangible assets other than goodwill at September 30, 2014 and December 31, 2013 were as follows:

| | 2014 | | | 2013 | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net | Useful Life (in years) | Weighted Average Useful Life Remaining (in years) |
| Intangible assets with finite lives: | | | | | | | | |
| Licenses | $ 5,875 | $ (5,875) | $ — | $ 5,875 | $ (5,875) | $ — | | |
| Patent costs | 22,009 | (7,519) | 14,490 | 21,545 | (5,960) | 15,585 | 6 - 7 | 3 |
| Acquired technology | 60,596 | (16,417) | 44,179 | 30,095 | (13,615) | 16,480 | 5 - 10 | 5 |
| Internally developed software | 17,851 | (13,934) | 3,917 | 18,097 | (12,863) | 5,234 | 5 | <1 |
| Customer relationships | 133,077 | (33,708) | 99,369 | 95,793 | (18,283) | 77,510 | 5 - 13 | 5 |
| Non-compete agreements | 35,087 | (10,457) | 24,630 | 16,848 | (6,666) | 10,182 | 3 - 11 | 3 |
| Trade names | 21,193 | (4,174) | 17,019 | 9,302 | (2,211) | 7,091 | 2 - 10 | 3 |
| Other | 28,149 | (5,524) | 22,625 | 11,598 | (4,081) | 7,517 | <1 - 7 | 2 |
| Intangibles with indefinite lives: | | | | | | | | |
| Trademarks | 2,110 | — | 2,110 | 2,110 | — | 2,110 | N/A | N/A |
| Total intangible assets | $ 325,947 | $ (97,608) | $ 228,339 | $ 211,263 | $ (69,554) | $ 141,709 | <1 - 13 | 4 |

For the nine months ended September 30, 2014 and 2013, the Company capitalized $547 and $1,502, respectively, of costs incurred to acquire, develop and extend patents in the United States and various other countries.

Amortization expense for intangible assets for the quarter and nine months ended September 30, 2014 was $11,096 and $28,510, respectively, compared to $6,206 and $15,102, respectively, for the quarter and nine months ended September 30, 2013.

Annual amortization expense for intangible assets for 2014, 2015, 2016, 2017 and 2018 is expected to be $41,878, $29,631, $26,573, $23,617 and $18,567, respectively.

(6) Accrued and Other Liabilities

Accrued liabilities at September 30, 2014 and December 31, 2013 were as follows:

| (in thousands) | 2014 | 2013 |
|---|---|---|
| Compensation and benefits | $ 19,610 | $ 13,197 |
| Vendor accruals | 5,236 | 5,449 |
| Accrued professional fees | 598 | 493 |
| Accrued taxes | 6,956 | 1,834 |
| Royalties payable | 1,528 | 750 |
| Accrued interest | 43 | 73 |
| Accrued earnouts related to acquisitions | 194 | 5,872 |
| Accrued other | 1,997 | 762 |
| Total | $ 36,162 | $ 28,430 |

Other liabilities at September 30, 2014 and December 31, 2013 were as follows:

| (in thousands) | 2014 | 2013 |
|---|---|---|
| Defined benefit pension obligation | $ 5,426 | $ 5,861 |
| Long term tax liability | 90 | 90 |
| Long term earnouts related to acquisitions | 8,744 | 4,206 |
| Long term deferred revenue | 6,162 | 4,218 |
| Other long term liabilities | 4,439 | 826 |
| Total | $ 24,861 | $ 15,201 |

(7) Hedging Activities and Financial Instruments

The Company conducts business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, the Company is subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, the Company endeavors to match assets and liabilities in the same currency on its balance sheet and those of its subsidiaries in order to reduce these risks. When appropriate, the Company enters into foreign currency contracts to hedge exposures arising from those transactions. The Company has elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under ASC 815, “Derivatives and Hedging,” and therefore, all gains and losses (realized or unrealized) are recognized in "Interest and other expense, net" in the condensed consolidated statements of operations and comprehensive income (loss). Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid expenses and other current assets or in accrued liabilities on the condensed consolidated balance sheet.

There were no foreign currency contracts outstanding at September 30, 2014 or at December 31, 2013.

The total impact of foreign currency transactions on the condensed consolidated statements of operations and comprehensive income (loss) for the quarter and nine months ended September 30, 2014 reflected a loss of $1,740 and a loss of $3,085, respectively, compared to a gain of $505 and a loss of $258, respectively, for the quarter and nine months ended September 30, 2013.

(8) Borrowings

5.5% senior convertible notes

In November 2011, the Company issued $152,000 of 5.50% senior convertible notes due December 2016. The notes were issued with an effective yield of 5.96% based upon an original issue discount at 98.0%. The net proceeds from the issuance of these notes, after deducting original issue discount and capitalized issuance costs of $6,634, amounted to $145,366.

During the third quarter of 2014, the remaining $12,540 of outstanding notes were converted, reflecting a loss of $1,806 for the quarter and nine months ended September 30, 2014, compared to losses of $2,022 and $11,275, respectively, for the quarter and nine months ended September 30, 2013. As of September 30, 2014, there is no outstanding balance for the notes.

Other debt

In connection with its acquisition of LayerWise, the Company assumed a portion of LayerWise's outstanding bank debt, consisting of $1,427 of revolving credit facilities and $240 in term loans. The term loans bear interest at rates ranging from 1.34% to 5.40% as of September 30, 2014. The outstanding balance on the term loans was $223, as of September 30, 2014, all of which was current. There were no borrowings outstanding under the revolving credit facilities as of September 30, 2014. There is a 0.125% commitment fee on the unused portion of the facilities.

(9) Stock-based Compensation Plans

The Company records stock-based compensation expense in selling, general and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss). Stock-based compensation expense for the quarter and nine months ended September 30, 2014 and 2013 was as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2014 | 2013 | 2014 | 2013 |
| Restricted stock awards | $ 8,100 | $ 3,118 | $ 23,738 | $ 8,464 |

11

The number of shares of restricted common stock awarded and the weighted average fair value per share during the quarter and nine months ended September 30, 2014 and 2013 were as follows:

| | Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (in thousands, except per share amounts) | Shares Awarded | Weighted Average Fair Value | Shares Awarded | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the 2004 Incentive Stock Plan | 88 | $ 52.73 | 96 | $ 49.35 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | — | — | 3 | 47.12 |
| Total restricted stock awards | 88 | $ 52.73 | 99 | $ 49.29 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (in thousands, except per share amounts) | Shares Awarded | Weighted Average Fair Value | Shares Awarded | Weighted Average Fair Value |
| Restricted stock awards: | | | | |
| Granted under the 2004 Incentive Stock Plan | 464 | $ 65.35 | 385 | $ 41.66 |
| Granted under the 2004 Restricted Stock Plan for Non-Employee Directors | 17 | 49.26 | 15 | 48.20 |
| Total restricted stock awards | 481 | $ 64.78 | 400 | $ 41.91 |

During the nine months ended September 30, 2014, the Company granted restricted stock awards covering 464 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan. Of the 464 shares granted in the first nine months of 2014, 30 shares were awarded to executive officers of the Company and 35 shares remained subject to acceptance at September 30, 2014. In the first nine months of 2013, the Company granted restricted stock awards covering 385 shares of common stock pursuant to the Company's 2004 Incentive Stock Plan, of which 27 shares were awarded to executive officers of the Company.

In the first nine months of 2014 and 2013, respectively, the Company granted 17 and 15 shares, respectively, of common stock pursuant to the Company's 2004 Restricted Stock Plan for Non-Employee Directors. Stock compensation expense for Non-Employee Directors for the first nine months of 2014 and 2013 was $849 and $727, respectively.

(10) International Retirement Plan

The following table shows the components of net periodic benefit costs and other amounts recognized in the condensed consolidated statements of operations and comprehensive income (loss) for the quarter and nine months ended September 30, 2014 and 2013:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2014 | 2013 | 2014 | 2013 |
| Service cost | $ 38 | $ 37 | $ 126 | $ 84 |
| Interest cost | 52 | 78 | 174 | 175 |
| Total | $ 90 | $ 115 | $ 300 | $ 259 |

12

(11) Earnings Per Share

The Company presents basic and diluted earnings per share ("EPS") amounts. Basic EPS is calculated by dividing net income attributable to 3D Systems Corporation available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted EPS is calculated by dividing net income by the weighted average number of common and common equivalent shares outstanding during the applicable period.

The following table reconciles basic weighted average outstanding shares to diluted weighted average outstanding shares at September 30, 2014 and 2013:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income attributable to 3D Systems Corporation – numerator for basic net earnings per share | $ 3,084 | $ 17,657 | $ 10,086 | $ 32,883 |
| Add: Effect of dilutive securities | | | | |
| Interest expense on 5.50% convertible notes (after-tax) | — | — | — | — |
| Numerator for diluted earnings per share | $ 3,084 | $ 17,657 | $ 10,086 | $ 32,883 |
| | | | | |
| Denominator: | | | | |
| Weighted average shares – denominator for basic net earnings per share | 110,737 | 102,437 | 106,923 | 96,874 |
| Add: Effect of dilutive securities | | | | |
| 5.50% convertible notes (after-tax) | — | — | — | — |
| Denominator for diluted earnings per share | 110,737 | 102,437 | 106,923 | 96,874 |
| | | | | |
| Earnings per share | | | | |
| Basic and diluted | $ 0.03 | $ 0.17 | $ 0.09 | $ 0.34 |
| | | | | |
| Interest expense excluded from diluted earnings per share calculation (a) | $ — | $ 243 | $ 362 | $ 1,751 |
| 5.50% Convertible notes shares excluded from diluted earnings per share calculation (a) | — | 876 | 584 | 2,060 |

(a)

Average outstanding diluted earnings per share calculation excludes shares that may be issued upon conversion of the outstanding senior convertible notes since the effect of their inclusion would have been anti-dilutive.

For the quarter ended September 30, 2014, average common shares for basic and diluted earnings per share were 110,737 and basic and diluted earnings per share were $0.03. For the quarter ended September 30, 2013, average common shares for basic and diluted earnings per share were 102,437 and basic and diluted earnings per share were $0.17.

For the nine months ended September 30, 2014, average common shares for basic and diluted earnings per share were 106,923, and basic and diluted earnings per share were $0.09. For the nine months ended September 30, 2013, average common shares for basic and diluted earnings per share were 96,874 and basic and diluted earnings per share were $0.34.

(12) Fair Value Measurements

ASC 820, “Fair Value Measurements and Disclosures,” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;

- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

· Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For the Company, the above standard applies to cash equivalents and senior convertible notes. The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| | Fair Value Measurements as of September 30, 2014 | | | |
|---|---|---|---|---|
| (in thousands) | Level 1 | Level 2 | Level 3 | Total |
| Description | | | | |
| Cash equivalents (a) | $ 278,800 | $ — | $ — | $ 278,800 |

[a] Cash equivalents include funds held in money market instruments and are reported at their current carrying value, which approximates fair value due to the short-term nature of these instruments and are included in cash and cash equivalents in the consolidated balance sheet.

The Company did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the quarter and nine months ended September 30, 2014.

In addition to the financial assets included in the above table, certain of our non-financial assets and liabilities are to be initially measured at fair value on a non-recurring basis. This includes items such as non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and non-financial, long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets and liabilities including goodwill, other intangible assets and property and equipment are measured at fair value when there is an indication of impairment and are recorded at fair value only when impairment is recognized. The Company has not recorded any impairments related to such assets and has had no other significant non-financial assets or non-financial liabilities requiring adjustments or write-downs to fair value as of September 30, 2014 or December 31, 2013.

(13) Income Taxes

The Company’s effective tax rates were 26.2% and 34.4% for the quarter and nine months ended September 30, 2014, respectively, compared to 31.9% and 30.8% for the quarter and nine months ended September 30, 2013.

The Company has not provided for any taxes on the unremitted earnings of its foreign subsidiaries, as the Company intends to permanently reinvest all such earnings outside of the U.S. We believe a calculation of the deferred tax liability associated with these undistributed earnings is impracticable.

Tax years 2010 to 2013 are subject to examination by the U.S. Internal Revenue Service. The Company has utilized U.S. loss carryforwards causing the years 1997 to 2007 to be subject to examination. The Company files income tax returns (which are open to examination beginning in the year shown in parentheses) in Australia (2009), Belgium (2010), China (2010), France (2011), Germany (2011), India (2012), Israel (2010), Italy (2009), Japan (2007), Korea (2008), Netherlands (2007), Switzerland (2008), and the United Kingdom (2009).

(14) Segment Information

The Company operates in one reportable business segment. The Company conducts its business through subsidiaries in the United States, a subsidiary in Israel that operates a research and production facility and sales and service offices, a subsidiary in Switzerland that operates a research and production facility, subsidiaries in France that operate production facilities and sales and service offices, and sales and service offices operated by other subsidiaries in Europe (Belgium, Germany, the United Kingdom, Italy and the Netherlands) and in Asia-Pacific (Australia, China, India, Japan and Korea). The Company has historically disclosed summarized financial information for the geographic areas of operations as if they were segments in accordance with ASC 280, “Segment Reporting.” Financial information concerning the Company’s geographical locations is based on the location of the selling entity.

Summarized financial information concerning the Company's geographical operations is shown in the following tables:

| (in thousands) | Quarter Ended September 30, 2014 | Quarter Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Revenue from unaffiliated customers: | | | | |
| Americas | $ 90,992 | $ 74,427 | $ 237,919 | $ 199,450 |
| Germany | 19,843 | 11,039 | 63,230 | 36,236 |
| Other EMEA | 27,364 | 21,728 | 73,556 | 56,966 |
| Asia Pacific | 28,745 | 28,523 | 91,509 | 65,931 |
| Total | $ 166,944 | $ 135,717 | $ 466,214 | $ 358,583 |

The Company's revenue from unaffiliated customers by type was as follows:

| (in thousands) | Quarter Ended September 30, 2014 | Quarter Ended September 30, 2013 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2013 |
|---|---|---|---|---|
| Products | $ 72,917 | $ 59,841 | $ 195,618 | $ 153,754 |
| Materials | 39,009 | 33,179 | 117,486 | 91,183 |
| Services | 55,018 | 42,697 | 153,110 | 113,646 |
| Total | $ 166,944 | $ 135,717 | $ 466,214 | $ 358,583 |

Intercompany sales were as follows:

| | Quarter Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |

| | | | | | |
|---|---|---|---|---|---|
| Americas | $ — | $ 10,137 | $ 4,512 | $ 4,634 | $ 19,283 |
| Germany | 2,063 | — | 2,002 | 8 | 4,073 |
| Other EMEA | 8,713 | 575 | 546 | 156 | 9,990 |
| Asia Pacific | 705 | — | — | 727 | 1,432 |
| Total | $ 11,481 | $ 10,712 | $ 7,060 | $ 5,525 | $ 34,778 |

| | Quarter Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ — | $ 5,617 | $ 3,186 | $ 1,286 | $ 10,089 |
| Germany | 355 | — | 794 | — | 1,149 |
| Other EMEA | 7,398 | 420 | 347 | 442 | 8,607 |
| Asia Pacific | 1,732 | — | — | 492 | 2,224 |
| Total | $ 9,485 | $ 6,037 | $ 4,327 | $ 2,220 | $ 22,069 |

| | Nine Months Ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ — | $ 30,999 | $ 14,169 | $ 10,430 | $ 55,598 |
| Germany | 2,918 | — | 4,830 | 8 | 7,756 |
| Other EMEA | 29,688 | 2,453 | 1,554 | 1,602 | 35,297 |
| Asia Pacific | 1,518 | (15) | — | 1,930 | 3,433 |
| Total | $ 34,124 | $ 33,437 | $ 20,553 | $ 13,970 | $ 102,084 |

| | Nine Months Ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Intercompany Sales to | | | | |
| (in thousands) | Americas | Germany | Other EMEA | Asia Pacific | Total |
| Americas | $ — | $ 16,058 | $ 11,024 | $ 3,485 | $ 30,567 |
| Germany | 1,059 | — | 2,600 | — | 3,659 |
| Other EMEA | 16,621 | 1,377 | 1,522 | 566 | 20,086 |
| Asia Pacific | 2,604 | 641 | 67 | 915 | 4,227 |
| Total | $ 20,284 | $ 18,076 | $ 15,213 | $ 4,966 | $ 58,539 |

All revenue between geographic areas is recorded at prices that provide for an allocation of profit (loss) between entities. Income (loss) from operations, assets, and cash for each geographic area was as follows:

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands) | 2014 | 2013 | 2014 | 2013 |
| Income (loss) from operations: | | | | |
| Americas | $ (767) | $ 17,833 | $ (9,833) | $ 40,745 |
| Germany | 1,299 | (56) | 1,947 | 287 |
| Other EMEA | 643 | 1,601 | 5,168 | 3,602 |
| Asia Pacific | 7,136 | 9,309 | 25,658 | 19,102 |
| Subtotal | 8,311 | 28,687 | 22,940 | 63,736 |
| Inter-segment elimination | (103) | (117) | (853) | (851) |
| Total | $ 8,208 | $ 28,570 | $ 22,087 | $ 62,885 |

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Americas | $ 1,063,539 | $ 870,208 |
| Germany | 46,739 | 38,685 |
| Other EMEA | 318,073 | 120,562 |
| Asia Pacific | 74,890 | 68,401 |
| Total | $ 1,503,241 | $ 1,097,856 |

| (in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents: | | |
| Americas | $ 331,432 | $ 286,377 |
| Germany | 8,350 | 3,441 |
| Other EMEA | 25,256 | 8,915 |
| Asia Pacific | 12,297 | 7,583 |
| Total | $ 377,335 | $ 306,316 |

16

(15) Commitments and Contingencies

The Company leases office space under various non-cancelable operating leases. Rent expense under operating leases was $2,763 and $7,673 for the quarter and nine months ended September 30, 2014 compared to $2,122 and $4,940 for the quarter and nine months ended September 30, 2013.

The Company has supply commitments for printer assemblies that total $55,494 at September 30, 2014, compared to $41,091 at December 31, 2013.

Certain of the Company's acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total liabilities recorded for these earnouts as of September 30, 2014 and December 31, 2013 was $8,938 and $5,578, respectively.

Litigation

On November 20, 2012, the Company filed a complaint in an action titled 3D Systems, Inc. v. Formlabs, Inc. and Kickstarter, Inc. in the United States District Court for the District of South Carolina (Rock Hill Division) asserting that Formlabs' and Kickstarter's sales of the Form 1 3D printer infringed on one of the Company's patents relating to stereolithography machines. Formlabs and Kickstarter filed a motion to dismiss or transfer venue on February 25, 2013, and the Company filed a first amended complaint on March 8, 2013. On May 8, 2013, the Court granted the parties' joint motion to stay the case until September 3, 2013 to enable the parties to continue settlement discussions. On November 8, 2013, the Company voluntarily dismissed the South Carolina complaint and filed a new complaint in the United States District Court for the Southern District of New York asserting that Formlabs' sales of the Form 1 3D printer infringed on eight of the Company's patents relating to stereolithography machines. On December 20, 2013, Formlabs filed a motion to dismiss the Company's claims of indirect and willful infringement, and the Company filed a memorandum in opposition on January 6, 2014. Formlabs filed a reply on January 16, 2014. The Court ruled on the motion to dismiss on May 12, 2014, granting in part and dismissing in part Formlabs' motion. The Company filed a first amended complaint on May 16, 2014, and Formlabs filed its answer on September 2, 2014. The Company intends to pursue claims for damages against Formlabs.

The Company is also involved in various other legal matters incidental to its business. The Company believes, after consulting with counsel, that the disposition of these other legal matters will not have a material effect on our consolidated results of operations or consolidated financial position.

Indemnification

In the normal course of business the Company periodically enters into agreements to indemnify customers or suppliers against claims of intellectual property infringement made by first parties arising from the use of the Company's products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law, the Company indemnifies directors and officers for certain events or occurrences while the director or officer is, or was, serving at the Company's request in such capacity, subject to limited exceptions. The maximum potential amount of future payments the Company could be required to make under these indemnification obligations is unlimited; however, the Company has directors and officers insurance coverage that may enable the Company to recover future amounts paid, subject to a deductible and the policy limits. There is no assurance that the policy limits will be sufficient to cover all damages, if any.

(16) Accumulated Other Comprehensive Income (Loss)

The changes in the balances of accumulated other comprehensive income (loss) by component are as follows:

| (in thousands) | Foreign currency translation adjustment | Defined benefit pension plan | Liquidation of Non-US Entity | Total |
|---|---|---|---|---|
| Balance at December 31, 2013 | $ 6,692 | $ (1,076) | $ 173 | $ 5,789 |
| Other comprehensive income (loss) | (9,192) | 136 | — | (9,056) |
| Balance at September 30, 2014 | $ (2,500) | $ (940) | $ 173 | $ (3,267) |

The amounts presented above are included in other comprehensive income (loss) and are net of taxes. For additional information about foreign currency translation, see Note 7. For additional information about the pension plan, see Note 10.

(17) Noncontrolling Interest

As of September 30, 2014, the Company owned approximately 95% of the capital and voting rights of Phenix Systems, a global provider of direct metal selective laser sintering 3D printers based in Riom, France. Phenix's operating results are included in these condensed consolidated financial statements. In accordance with ASC 810, "Consolidation," the carrying value of the noncontrolling interest is reported in the condensed consolidated balance sheets as a separate component of equity and condensed consolidated net income has been adjusted to report the net income attributable to the noncontrolling interest.

(18) Subsequent Event

On October 10, 2014, the Company and certain of its subsidiaries entered into a $150,000 five-year revolving, unsecured credit facility (the "Credit Agreement") with PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, HSBC Bank USA, N.A., as Syndication Agent, and the other lenders party thereto (collectively, the "Lenders"). The Credit Agreement comprises a revolving loan facility that provides for advances in the initial aggregate principal amount of up to $150,000 (the "Credit Facility"). Subject to certain terms and conditions contained in the Credit Agreement, the Company may, at its option and subject to customary conditions, request an increase in the aggregate principal amount available under the Credit Facility by an additional $75,000. The Credit Agreement includes provisions for the issuance of letters of credit and swingline loans.

The Credit Agreement is guaranteed by certain of the Company's material domestic subsidiaries (the "Guarantors"). Pursuant to the Credit Agreement, the Guarantors guarantee to the Lenders, among other things, all of the obligations of the Company and each other Guarantor under the Credit Agreement. From time to time, the Company may be required to cause additional material domestic subsidiaries to become Guarantors under the Credit Agreement.

Generally, amounts outstanding under the Credit Facility bear interest, at the Company's option, at either the Base Rate or the LIBOR Rate, in each case, plus an applicable margin. Base Rate advances bear interest at a rate per annum equal to the sum of (i) the highest of (A) the Administrative Agent's prime rate, (B) the Federal Funds Open Rate plus 0.5% or (C) the Daily LIBOR Rate for a one month interest period plus 1%, and (ii) an applicable margin that ranges from 0.25% to 0.50% based upon the Company's consolidated total leverage ratio. LIBOR Rate advances bear interest at a rate based upon the London interbank offered rate for the applicable interest period, plus an applicable margin that ranges from 1.25% to 1.50% based upon the Company's consolidated total leverage ratio. Under the terms of the Credit Agreement, (i) accrued interest on each loan bearing interest at the Base Rate is payable quarterly in arrears and (ii) accrued interest on each loan bearing interest at the LIBOR Rate is payable in arrears on the earlier of (A) quarterly and (B) the last day of each applicable interest payment date for each loan. The Credit Facility is scheduled to mature on October 10, 2019, at which time all amounts outstanding thereunder will be due and payable.

The Company is required to pay certain fees in connection with the Credit Facility, including a quarterly commitment fee equal to the product of the amount of the average daily available revolving commitments under the Credit Agreement multiplied by a percentage that ranges from 0.20% to 0.25% depending upon the Company's leverage ratio, as well as customary administrative fees.

The Credit Agreement contains customary representations, warranties, covenants and default provisions for a Credit Facility of this type, including, but not limited to, financial covenants, limitations on liens and the incurrence of debt, covenants to preserve corporate existence and comply with laws and covenants regarding the use of proceeds of the Credit Facility. The financial covenants include a maximum consolidated total leverage ratio, which is the ratio of consolidated total funded indebtedness to consolidated EBITDA (earnings before interest, taxes, depreciation and amortization expense), as defined in the Credit Agreement, of 3.00 to 1.00, and a minimum interest coverage ratio, which is the ratio of Consolidated EBITDA to cash interest expense, of 3.50 to 1.0. The Company is only required to be in compliance with the financial covenants as of the end of any fiscal quarter in which there are any loans outstanding at any time during such fiscal quarter.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q (“Form 10-Q”).

We are subject to a number of risks and uncertainties that may affect our future performance that are discussed in greater detail in the sections entitled “Forward-Looking Statements” and “Cautionary Statements and Risk Factors” at the end of this Item 2 and that are discussed or referred to in Item 1A of Part II of this Form 10-Q.

Business Overview

We are a leading global provider of 3D printing centric design-to-manufacturing solutions, including 3D printers, print materials and on-demand custom parts for professionals and consumers alike. Our materials include plastics, metals, ceramics and edibles. We also provide integrated 3D scan-based design, freeform modeling and inspection tools and an integrated 3D planning and printing digital thread for personalized surgery and patient specific medical devices. Our products and services replace and complement traditional methods and reduce the time and cost of designing new products by printing real parts directly from digital input. These solutions are used to rapidly design, create, communicate, prototype or produce functional parts and assemblies, empowering customers to manufacture the future.

We derive our consolidated revenue primarily from the sales of our printers, the sales of the related print materials and services, the sales of our Quickparts brand on-demand parts services, 3D-related healthcare products and services, and the sales of software products, perceptual and haptic devices, and Simbionix simulators.

Recent Developments

In August, we continued to expand our 3D healthcare and personalized medical solutions with the acquisition of Simbionix USA Corporation (“Simbionix”). Simbionix specializes in FDA-cleared, 3D virtual reality surgical simulation and training solutions, with over sixty interventional procedures across eight specialties through sixteen simulation platforms. With a strong sales channel, Simbionix extends our 3D medical digital thread, from training room to operating room.

In August, we enhanced our Quickparts services with the acquisitions of Bordner and Associates, Inc. d/b/a Laser Reproductions (“Laser Reproductions”), American Precision Machining, L.L.C. (“APM”) and its sister company American Precision Prototyping, LLC (“APP”). These acquisitions bring expertise in SLA, precision machining, rapid prototyping and advanced manufacturing solutions, including aerospace expertise and relationships.

In August, we signed a lease on a new 0.2 million square foot facility in Rock Hill, South Carolina, increasing our manufacturing and distribution capacity to meet growing demand for our printers and materials.

In September, we acquired LayerWise NV (“LayerWise”), based in Belgium. LayerWise is a provider of advanced direct metal 3D printing and manufacturing services and delivers quick-turn, 3D-printed metal parts, manufactured on its own proprietary line of direct metal 3D printers, for aerospace, high-precision equipment and medical and dental customers.

In October, we entered into a $150.0 million five-year revolving, unsecured credit facility (the “Credit Agreement”) with PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, HSBC Bank USA, N.A., as Syndication Agent, and the other lender’s party there to. The Credit Agreement comprises a revolving loan facility that provides for advances in the initial aggregate principal amount of up to $150.0 million (the “Credit Facility”). Subject to certain terms and conditions contained in the Credit Agreement, the Company may, at its option and subject to customary conditions, request an increase in the aggregate principal amount available under the Credit Facility by an additional $75.0 million. The Credit Agreement includes provisions for the issuance of letters of credit and swingline loans.

In November, we announced that Ted Hull will assume the role of Chief Financial Officer (“CFO”). Hull’s career spans more than three decades of progressing financial leadership roles in high-tech companies and sector leaders including Cisco, Maxtor and IBM. In addition, we announced Mark Wright as our Chief Operating Officer (“COO”). Wright has previously served in various related roles, including Senior Vice President of Operations for EMC Corporation (NYSE: EMC) and COO of EMC’s Flash Product Division. Other new management positions announced include Peter Theran as Vice-President of Consumer Retail, Kevin McAlea being promoted to Executive Vice-President & COO of Healthcare, and Jeff Blank being promoted to Vice-President, Global Engineering and Chief Development Officer.

Results of Operations

Summary of 2014 financial results

During the third quarter of 2014, we reported improved revenue as compared to the third quarter of 2013 as our worldwide businesses continued to expand, reflecting growth in design and manufacturing printers and materials and increased software and service revenue. Revenue for the third quarter of 2014 increased by 23.0%, or $31.2 million, to $166.9 million compared to $135.7 million in the third quarter of 2013. Higher revenue offset by increased SG&A expenses and higher R&D expenses, resulted in net income of $3.1 million for the third quarter of 2014, compared to net income of $17.7 million for the same period in 2013.

Products revenue increased by $13.1 million, or 21.9%, from the third quarter of 2013, to $72.9 million, driven by expanding use and rising demand for our design and manufacturing printers.

Materials sales for the third quarter of 2014 were $39.0 million, an increase of $5.8 million, or 17.5%, from the third quarter of 2013 as revenue from materials was impacted by continued expansion of printers installed over past periods and increased utilization of printers.

Revenue from services increased by $12.3 million, or 28.9%, to $55.0 million in the third quarter of 2014 from $42.7 million in the same quarter in 2013. The increase in services revenue reflects increased revenue from the addition of healthcare services and higher Quickparts revenue, from organic and acquired growth.

We calculate organic growth by comparing this year’s total revenue for the period, excluding the revenue recognized from all acquired businesses that we have owned for less than twelve months, to last year’s total revenue for the period. Once we have owned a business for one year, the revenue is included in organic growth. Organic growth is calculated based on total revenue for the prior year period. In the third quarter of 2014, our organic growth was 12.2% compared to 29.7% for the third quarter of 2013. For the nine months ended September 30, 2014 and 2013, our organic growth was 16.0% and 27.5%, respectively.

Healthcare revenue includes sales of products, materials, and services for health-related applications, including hearing aid, dental, personalized medicine and medical devices. For the third quarter of 2014, healthcare revenue increased 121.4% and made up 22.4%, or $37.4 million, of our total revenue compared to 12.4%, or $16.9 million, in the third quarter of 2013, primarily due to our increased penetration and growth in healthcare applications and the addition of Simbionix, Medical Modeling and Layerwise. During the first nine months of 2014, healthcare revenue increased 73.5% and made up 18.6%, or $86.5 million, of our total revenue compared to 13.9%, or $49.9 million, in the 2013 period.

Consumer revenue includes sales of Cube® 3D printers and their related print materials, Sense 3D scanners and other products and services related to consumer products and retail channels. For the third quarter of 2014, consumer revenue decreased 12.5% to $11.8 million, or 7.1% of our total revenue, compared to $13.5 million, or 9.9% of total revenue, in the third quarter of 2013. The decrease was primarily driven by delayed shipments of newer consumer products. During the first nine months of 2014, consumer revenue increased 11.4%, to $28.8 million, or 6.2% of total revenue, compared to $25.8 million, or 7.2% of total revenue, in the 2013 period, driven by expanded consumer offerings and increasing demand.

Our gross profit in the third quarter of 2014 improved by $8.4 million, primarily due to our higher level of revenue from increases across products, materials, and services. Our gross profit margin decreased to 47.8% in the third quarter of 2014 from 52.6% in the third quarter of 2013, reflecting current sales mix and timing of sales, availability of new products, and residual new product startup costs.

Our total operating expenses increased by $28.7 million in the third quarter of 2014, to $71.6 million, from $42.9 million in the same 2013 quarter. The increase reflected higher selling, general and administrative expenses primarily due to increased sales and marketing expenses and higher staffing due to our expanding portfolio. The increase also reflects a $7.1 million increase in research and development expenses related to our portfolio expansion, new products developments, and the addition of the engineering team in Wilsonville, Oregon.

Our operating income for the third quarter of 2014 decreased to $8.2 million from $28.6 million in the same 2013 quarter. This decrease in operating income is due to lower gross profit margin and higher operating expenses as discussed in more detail below.

Our operating activities generated $27.9 million of cash during the first nine months of 2014, which is discussed in further detail below. We used $261.9 million to fund our strategic investing activities, including acquisition costs. Financing activities during the first nine months of 2014 generated $307.9 million of cash, primarily due to proceeds from our equity raise in the second quarter of 2014. In total, our unrestricted cash balance at September 30, 2014 was $377.3 million compared to $306.3 million at December 31, 2013.

Third quarter comparison of revenue by class of product and service

Table 1 sets forth our change in revenue by class of product and services for the third quarter of 2014 compared to the third quarter of 2013:

Table 1

| (Dollars in thousands) | Products | | Materials | | Services | | Total | |
|---|---|---|---|---|---|---|---|---|
| Revenue – 3rd quarter 2013 | $ 59,841 | 44.1 % | $ 33,179 | 24.4 % | $ 42,697 | 31.5 % | $ 135,717 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | | | | | | | | |
| Core | 11,364 | 19.0 | 14,279 | 43.0 | 7,707 | 18.1 | 33,350 | 24.6 |
| New | (81) | (0.1) | 2,368 | 7.1 | 4,417 | 10.3 | 6,704 | 4.9 |
| Price/Mix | 2,332 | 3.9 | (10,842) | (32.7) | — | — | (8,510) | (6.3) |
| Foreign currency translation | (539) | (0.9) | 25 | 0.1 | 197 | 0.5 | (317) | (0.2) |
| Net change | 13,076 | 21.9 | 5,830 | 17.5 | 12,321 | 28.9 | 31,227 | 23.0 |
| Revenue – 3rd quarter 2014 | $ 72,917 | 43.7 % | $ 39,009 | 23.4 % | $ 55,018 | 32.9 % | $ 166,944 | 100 % |

We earn revenues from the sale of products, materials and services. On a consolidated basis, revenue for the third quarter of 2014 increased by $31.2 million, or 23.0%, compared to the third quarter of 2013, reflecting increases in all classes of products and services.

The $13.1 million increase in revenue from products compared to the third quarter of 2013 is driven by increased demand for design and manufacturing printers. In connection with the expansion of our professional and retail channels, certain resellers may purchase stock inventory in the ordinary course of business. For the third quarter of 2014, we estimate that revenue related to reseller inventory amounted to approximately 9% of total revenue, which was impacted by timing of sales, expansion of our reseller channel and the recent shift from a partially direct sales model to the reseller channel selling our entire portfolio, which expanded the volume of transactions through the channel.

In addition to printers, the products category includes software products, perceptual and haptic devices, Vidar digitizers and Simbionix simulators. Software revenue contributed $5.1 million of products revenue in both 2014 and 2013.

Due to the relatively high price of certain professional printers and a corresponding lengthy selling cycle and relatively low unit volume of the higher priced professional printer sales in any particular period, a shift in the timing and concentration of orders and shipments from one period to another can affect reported revenue in any given period. Revenue reported in any particular period is also affected by timing of revenue recognition under rules prescribed by generally accepted accounting principles.

The $5.8 million increase in revenue from materials was aided by the improvement in sales of 3D printers and the increased utilization of printers installed over past periods. Sales of integrated materials increased 17.0% to $28.2 million and represented 72.4% of total materials revenue in the third quarter of 2014 compared to 72.6% in the third quarter of 2013.

The increase in services revenue primarily reflects the addition of Medical Modeling and Simbionix revenue and organic and acquired growth from our Quickparts solutions, coupled with growing consumer and software services. Service revenue from Quickparts increased 15.2% to $32.3 million, or 58.7% of total service revenue, for the third quarter of 2014, compared to $28.0 million, or 65.7%, of total service revenue in the 2013 period. Software services contributed $3.7 million of revenue in the third quarter of 2014 compared to $1.9 million in the third quarter of 2013.

At September 30, 2014 our backlog was $46.0 million, compared to backlogs of $28.6 million at December 31, 2013 and $14.4 million at September 30, 2013. Production and delivery of our printers is generally not characterized by long lead times, backlog is more dependent on timing of customers' requested deliveries. Currently, demand for direct metals printers outstrips our manufacturing capacity and delayed commercial shipment of new consumer products with a rising consumer order book contributed to a higher backlog. In addition, Quickparts services lead time and backlog depends on whether orders are for rapid prototyping or longer-range production runs. The backlog at September 30, 2014 includes $11.5 million of Quickparts services orders, compared to $8.7 million at September 30, 2013.

In addition to changes in sales volumes, including the impact of revenue from acquisitions, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the price and mix effects relate to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our printers as the trend toward smaller, lower-priced printers has continued and the influence of new printers and print materials on our operating results has grown.

Change in third quarter revenue by geographic region

Each geographic region contributed to our higher revenue in the third quarter of 2014. Table 2 sets forth the change in revenue by geographic area for the third quarter of 2014 compared to the third quarter of 2013:

Table 2

| (Dollars in thousands) | Americas | | EMEA | | Asia Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|
| Revenue – 3rd quarter 2013 | $ 74,427 | 54.9 % | $ 32,767 | 24.1 % | $ 28,523 | 21.0 % | $ 135,717 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | 19,021 | 25.6 | 19,238 | 58.7 | 1,795 | 6.3 | 40,054 | 29.5 |
| Price/Mix | (2,456) | (3.3) | (4,831) | (14.7) | (1,223) | (4.3) | (8,510) | (6.3) |
| Foreign currency translation | — | — | 33 | 0.1 | (350) | (1.2) | (317) | (0.2) |
| Net change | 16,565 | 22.3 | 14,440 | 44.1 | 222 | 0.8 | 31,227 | 23.0 |
| Revenue – 3rd quarter 2014 | $ 90,992 | 54.5 % | $ 47,207 | 28.3 % | $ 28,745 | 17.2 % | $ 166,944 | 100 % |

Revenue from operations in the Americas for the third quarter of 2014 increased by $16.6 million, or 22.3%, to $91.0 million from $74.4 million in the third quarter of 2013. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from operations outside the Americas in the third quarter of 2014 increased by $14.7 million, or 23.9%, to $76.0 million from $61.3 million in the third quarter of 2013. Revenue from operations outside the Americas as a percent of total revenue was 45.5% and 45.2%, at September 30, 2014 and 2013, respectively. This increase outside the Americas, excluding the effect of foreign currency translation, was 23.4% in the third quarter of 2014 compared to 48.2% in the third quarter of 2013.

Revenue from operations in EMEA in the third quarter of 2014 increased by $14.4 million, or 44.1%, to $47.2 million from $32.8 million in the third quarter of 2013. This increase was due to a $19.2 million increase in volume, partially offset by a $4.8 million unfavorable combined effect of price and mix.

Revenue from Asia Pacific operations in the third quarter of 2014 increased by $0.2 million, or 0.8%, to $28.7 million from $28.5 million in the third quarter of 2013, due primarily to a favorable $1.8 million increase in volume, partially offset by a $1.2 million unfavorable combined effect of price and mix and a $0.4 million unfavorable impact of foreign currency translation.

Gross profit and gross profit margins

Table 3 sets forth gross profit and gross profit margins for our products and services for the third quarters of 2014 and 2013:

Table 3

| | Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (Dollars in thousands) | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Products | $ 25,769 | 35.3 % | $ 26,933 | 45.0 % |
| Materials | 28,530 | 73.1 | 24,481 | 73.8 |
| Services | 25,499 | 46.3 | 20,023 | 46.9 |
| Total | $ 79,798 | 47.8 % | $ 71,437 | 52.6 % |

On a consolidated basis, gross profit for the third quarter of 2014 increased by $8.4 million to $79.8 million from $71.4 million in the third quarter of 2013, primarily as a result of higher sales from all revenue categories.

Consolidated gross profit margin in the third quarter of 2014 decreased by 4.8 percentage points to 47.8% from 52.6% for the 2013 quarter. The lower gross profit margin reflects a change in revenue mix with a higher portion of revenue from lower margin products, both overall and within categories, as well as availability of new products and new product startup costs.

Products gross profit for the third quarter of 2014 decreased by $1.1 million, or 4.3%, to $25.8 million from $26.9 million in the 2013 quarter. Gross profit margin for products decreased by 9.7 percentage points to 35.3% from 45.0% in the 2013 quarter primarily due to sales volume and mix coupled with manufacturing expansion and residual new product start-up costs.

Materials gross profit for the third quarter of 2014 increased by $4.0 million, or 16.5%, to $28.5 million from $24.5 million in the 2013 quarter, and gross profit margin for print materials decreased by 0.7 percentage points to 73.1% from 73.8% in the 2013 quarter primarily due to the mix of materials sold during the quarter.

Gross profit for services for the third quarter of 2014 increased by $5.5 million, or 27.3%, to $25.5 million from $20.0 million in the 2013 quarter. Gross profit margin for services decreased by 0.6 percentage points to 46.3% from 46.9% in the 2013 quarter. The decrease in the gross profit margin was primarily due to a decrease in Quickparts gross profit margin to 44.7% for the third quarter of 2014 from 45.1% in the third quarter of 2013, due to the recent concentration of acquired Quickparts services.

Operating expenses

As shown in Table 4, total operating expenses increased by $28.7 million, or 67.0%, to $71.6 million in the third quarter of 2014 from $42.9 million in the third quarter of 2013. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 4

| | Quarter Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue |
| Selling, general and administrative expenses | $ 53,656 | 32.1 % | $ 32,054 | 23.6 % |
| Research and development expenses | 17,934 | 10.7 | 10,813 | 8.0 |
| Total operating expenses | $ 71,590 | 42.8 % | $ 42,867 | 31.6 % |

Selling, general and administrative expenses increased by $21.6 million to $53.7 million in the third quarter of 2014 compared to $32.1 million in the third quarter of 2013, and increased to 32.1% of revenue in 2014 compared to 23.6% for 2013. The increase was due primarily to a $10.3 million increase in compensation costs due to increased staffing, a $4.9 million increase in amortization, a $1.3 million increase in legal fees, a $1.0 million increase in travel expenses and a $0.8 million increase in consulting fees related to acquisitions.

23

Research and development expenses increased by $7.1 million, or 65.9%, to $17.9 million in the third quarter of 2014 from $10.8 million in the third quarter of 2013. This increase was primarily due to a $3.7 million increase in compensation expenses related to talent expansion, a $0.9 million increase in R&D materials related to new product development and a $0.5 million increase in depreciation expense.

Income from operations

Our income from operations of $8.2 million for the third quarter of 2014 decreased from $28.6 million in the third quarter of 2013. See Gross profit and gross profit margins and Operating expenses above. The following table sets forth operating income by geographic area for the third quarter of 2014 compared to 2013:

Table 5

| | Quarter Ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2014 | 2013 |
| Income (loss) from operations | | |
| Americas | $ (767) | $ 17,833 |
| Germany | 1,299 | (56) |
| Other EMEA | 643 | 1,601 |
| Asia Pacific | 7,136 | 9,309 |
| Subtotal | 8,311 | 28,687 |
| Inter-segment elimination | (103) | (117) |
| Total | $ 8,208 | $ 28,570 |

With respect to the Americas, in 2014 and 2013, the changes in operating income by geographic area reflected the same factors discussed above in Gross profit and gross profit margins and Operating expenses.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2014 and 2013 resulted primarily from changes in transfer pricing, which is a function of revenue levels.

Interest and other expense, net

Interest and other expense, net was $4.0 million in the third quarter of 2014 compared with $2.7 million in the 2013 quarter. Interest and other expense, net in the third quarter of 2014 primarily reflected a loss on conversion of the remaining convertible notes, which amounted to $1.8 million, and a foreign exchange loss of $1.7 million. The $2.7 million of interest and other expense, net in the third quarter of 2013 primarily reflected the loss on conversion of convertible notes, which amounted to $2.0 million and the related interest, which amounted to $0.4 million, of which $0.1 million represents non-cash amortization, partially offset by $1.1 million of interest income and a foreign exchange gain of $0.5 million.

Provision for income taxes

We recorded a $1.1 million provision for income taxes in the third quarter of 2014 and an $8.3 million provision for income taxes in the third quarter of 2013. Our 2014 provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions. The 2013 provision for income taxes primarily reflects income taxes in U.S. and non-U.S. jurisdictions, reduced by the reversal of ASC-740 provisions in non-US jurisdictions.

Net income

Net income attributable to the Company for the third quarter of 2014 decreased $14.6 million to $3.1 million compared to $17.7 million in the third quarter of 2013.  The principal reasons for the decrease, which are discussed in more detail above, were:

• the $20.4 million decrease in operating income and

• the $1.3 million increase in interest and other expense; partially offset by

• the $7.2 million decrease in our tax provision.

For the quarter ended September 30, 2014, average common shares for basic and diluted earnings per share were 110.7 million and basic and diluted earnings per share were $0.03. For the quarter ended September 30, 2013, average common shares for basic and diluted earnings per share were 102.4 million and basic and diluted earnings per share were $0.17.

Results of Operations – Nine Months Comparison

Nine months comparison of revenue by class of product and service

The table below sets forth our change in revenue by class of product and service for the first nine months of 2014 compared to the first nine months of 2013:

Table 6

| (Dollars in thousands) | Products | | Materials | | Services | | Total | |
|---|---|---|---|---|---|---|---|---|
| Revenue – nine months 2013 | $ 153,754 | 42.9 % | $ 91,183 | 25.4 % | $ 113,646 | 31.7 % | $ 358,583 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | | | | | | | | |
| Core | 17,405 | 11.3 | 23,014 | 25.2 | 25,612 | 22.5 | 66,031 | 18.4 |
| New | 22,433 | 14.6 | 15,761 | 17.3 | 12,716 | 11.2 | 50,910 | 14.2 |
| Price/Mix | 1,241 | 0.8 | (13,426) | (14.7) | — | — | (12,185) | (3.4) |
| Foreign currency translation | 785 | 0.5 | 954 | 1.0 | 1,136 | 1.0 | 2,875 | 0.8 |
| Net change | 41,864 | 27.2 | 26,303 | 28.8 | 39,464 | 34.7 | 107,631 | 30.0 |
| Revenue – nine months 2014 | $ 195,618 | 42.0 % | $ 117,486 | 25.2 % | $ 153,110 | 32.8 % | $ 466,214 | 100 % |

We earn revenues from the sale of products, materials and services. On a consolidated basis, revenue for the first nine months of 2014 increased by $107.6 million, or 30.0%, compared to the first nine months of 2013 led by increased sales of products and aided by increased sales of materials and services.

The $41.9 million increase in revenue from products compared to the first nine months of 2013 was primarily driven by increased demand for design and manufacturing 3D printers.

The products category also includes software products, perceptual and haptic devices, Vidar digitizers and Simbionix simulators. Software products contributed $13.8 million of revenue, a 3.6% decrease from $14.3 million in 2013.

Due to the relatively high price of certain professional printers and a corresponding lengthy selling cycle and relatively low unit volume of the higher priced professional printer sales in any particular period, a shift in the timing and concentration of orders and shipments of a few printers from one period to another can affect reported revenue in any given period. Revenue reported in any particular period is also affected by timing of revenue recognition under rules prescribed by generally accepted accounting principles.

The $26.3 million increase in revenue from materials was aided by the expanding 3D printers installed base and by the continued increased utilization of printers over past periods. Sales of integrated materials increased 41.4% to $84.7 million and represented 72.1% of total materials revenue for the first nine months of 2014 compared to 70.2%, or $64.0 million for the first nine months of 2013.

The increase in services revenue reflects the addition of Medical Modeling and Simbionix revenue and organic and acquired revenue growth from Quickparts, coupled with growing consumer and software services. Service revenue from Quickparts increased 23.8% to $89.9 million, or 58.7% of total service revenue, for the first nine months of 2014, compared to $72.6 million, or 63.9%, of total service revenue in the 2013 period. Services revenue from software added $11.2 million in the first nine months of 2014 compared to $4.6 million in the first nine months of 2013.

In addition to changes in sales volumes, including the impact of revenue from acquisitions, there are two other primary drivers of changes in revenues from one period to another: the combined effect of changes in product mix and average selling prices, sometimes referred to as price and mix effects, and the impact of fluctuations in foreign currencies.

As used in this Management's Discussion and Analysis, the price and mix effects relate to changes in revenue that are not able to be specifically related to changes in unit volume. Among these changes are changes in the product mix of our materials and our printers as the trend toward smaller, lower-priced printers has continued and the influence of new printers and print materials on our operating results has grown.

Change in first nine months revenue by geographic region

Each geographic region contributed to our higher level of revenue in the first nine months of 2014. Table 7 sets forth the change in revenue by geographic area for the first nine months of 2014 compared to the first nine months of 2013:

Table 7

| (Dollars in thousands) | Americas | | EMEA | | Asia Pacific | | Total | |
|---|---|---|---|---|---|---|---|---|
| Revenue – nine months 2013 | $ 199,450 | 55.6 % | $ 93,202 | 26.0 % | $ 65,931 | 18.4 % | $ 358,583 | 100 % |
| Change in revenue: | | | | | | | | |
| Volume | 42,842 | 21.5 | 40,038 | 43.0 | 34,061 | 51.7 | 116,941 | 32.6 |
| Price/Mix | (4,373) | (2.2) | (1,004) | (1.1) | (6,808) | (10.3) | (12,185) | (3.4) |
| Foreign currency translation | — | — | 4,550 | 4.9 | (1,675) | (2.5) | 2,875 | 0.8 |
| Net change | 38,469 | 19.3 | 43,584 | 46.8 | 25,578 | 38.9 | 107,631 | 30.0 |
| Revenue – nine months 2014 | $ 237,919 | 51.0 % | $ 136,786 | 29.3 % | $ 91,509 | 19.7 % | $ 466,214 | 100 % |

Revenue from operations in the Americas for the first nine months of 2014 increased by $38.4 million, or 19.3%, to $237.9 million from $199.5 million in the first nine months of 2013. The increase was due to higher volume, partially offset by the unfavorable combined effect of price and mix.

Revenue from operations outside the Americas in the first nine months of 2014 increased by $69.2 million, or 43.5%, to $228.3 million from $159.1 million for the first nine months of 2013. Revenue from operations outside the Americas as a percent of total revenue was 49.0% and 44.4%, respectively, for the first nine months of 2014 and 2013. The increase in revenue outside the Americas, excluding the effect of foreign currency translation, was 40.4% for the first nine months of 2014 compared to 45.2% for the first nine months of 2013.

Revenue from operations in EMEA in the first nine months of 2014 increased by $43.6 million, or 46.8%, to $136.8 million from $93.2 million in the first nine months of 2013. This increase was due to a $40.0 million increase in volume, a $4.6 million favorable impact of foreign currency translation, and a $1.0 million unfavorable combined effect of price and mix.

Revenue from Asia Pacific operations in the first nine months of 2014 increased by $25.6 million, or 38.9%, to $91.5 million from $65.9 million in the first nine months of 2013, due primarily to a favorable $34.1 million increase in volume, partially offset by a $6.8 million unfavorable combined effect of price and mix and a $1.7 million unfavorable impact of foreign currency translation.

Gross profit and gross profit margins

Table 8 sets forth gross profit and gross profit margin for our products and services for the first nine months of 2014 and 2013:

Table 8

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| (Dollars in thousands) | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| Products | $ 72,065 | 36.8 % | $ 69,463 | 45.2 % |
| Materials | 85,364 | 72.7 | 66,907 | 73.4 |
| Services | 70,239 | 45.9 | 51,127 | 45.0 |
| Total | $ 227,668 | 48.8 % | $ 187,497 | 52.3 % |

On a consolidated basis, gross profit for the first nine months of 2014 increased by $40.2 million to $227.7 million from $187.5 million in the first nine months of 2013, primarily as a result of higher sales from all revenue categories.

Consolidated gross profit margin in the first nine months of 2014 decreased by 3.5 percentage points to 48.8% from 52.3% for the 2013 period.  The lower gross profit margin reflects the revenue mix, with lower margin products making up a higher portion of revenue, combined with new product startup costs and absorption of legacy product costs.

Products gross profit for the first nine months of 2014 increased by $2.6 million, or 3.7%, to $72.1 million from $69.5 million in the 2013 period, due to higher revenue. Gross profit margin for products decreased by 8.4 percentage points to 36.8% from 45.2% in the 2013 period primarily due to product sales mix with lower margin products making up a higher portion of revenue coupled with manufacturing expansion and residual new product start-up costs and a write down on inventory of legacy products in the second quarter.

Materials gross profit for the first nine months of 2014 increased by $18.5 million, or 27.6%, to $85.4 million from $66.9 million in the 2013 period, and gross profit margin for print materials decreased by 0.7 percentage points to 72.7% from 73.4% in the 2013 period due to the mix of materials sold during the period and the increase in integrated materials sales.

Gross profit for services for the first nine months of 2014 increased by $19.1 million, or 37.4%, to $70.2 million from $51.1 million in the  2013 period and gross profit margin for services increased by 0.9 percentage points to 45.9% from 45.0% in the 2013 period.  The increase in the gross profit margin was due to the higher margin acquisitions of Simbionix and Medical Modeling services, higher software contribution, and an increase in Quickparts gross profit margin to 43.2% for the first nine months of 2014 from 42.9% in the first nine months of 2013.

Operating expenses

As shown in Table 9, total operating expenses increased by $81.0 million, or 65.0%, to $205.6 million in the first nine months of 2014 from $124.6 million in the first nine months of 2013. This increase was due to higher selling, general and administrative expenses and higher research and development expenses, both of which are discussed below.

Table 9

Nine Months Ended September 30,

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (Dollars in thousands) | Amount | % Revenue | Amount | % Revenue |
| Selling, general and administrative expenses | $ 152,698 | 32.8 % | $ 97,697 | 27.2 % |
| Research and development expenses | 52,883 | 11.3 | 26,915 | 7.5 |
| Total operating expenses | $ 205,581 | 44.1 % | $ 124,612 | 34.7 % |

Selling, general and administrative expenses increased by $55.0 million to $152.7 million in the first nine months of 2014 compared to $97.7 million in the first nine months of 2013, and increased to 32.8% of revenue in 2014 compared to 27.2% for 2013. The increase was due primarily to a $26.4 million increase in compensation costs due to increased staffing, a $13.3 million increase in amortization, a $2.4 million increase in consulting fees, a $1.5 million increase in legal fees and a $1.3 million increase in travel expenses.

Research and development expenses increased by $26.0 million, or 96.5%, to $52.9 million in the first nine months of 2014 from $26.9 million in the first nine months of 2013. This increase was primarily due to a $12.3 million increase in compensation expenses related to talent expansion, a $4.0 million increase in R&D materials related to new product development, a $1.3 million increase in depreciation expense and a $1.1 million increase in rent expense.

Income from operations

Our income from operations of $22.1 million for the first nine months of 2014 decreased from $62.9 million in the first nine months of 2013. See Gross profit and gross profit margins and Operating expenses above.

The following table sets forth operating income by geographic area for the first nine months of 2014 compared to 2013:

Table 10

| (Dollars in thousands) | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Income (loss) from operations | | |
| Americas | $ (9,833) | $ 40,745 |
| Germany | 1,947 | 287 |
| Other EMEA | 5,168 | 3,602 |
| Asia Pacific | 25,658 | 19,102 |
| Subtotal | 22,940 | 63,736 |
| Inter-segment elimination | (853) | (851) |
| Total | $ 22,087 | $ 62,885 |

With respect to the Americas, in 2014 and 2013, the changes in operating income by geographic area reflected the same factors discussed above in Gross profit and gross profit margins and Operating expenses.

As most of our operations outside the U.S. are conducted through sales and marketing subsidiaries, the changes in operating income in our operations outside the U.S. in 2014 and 2013 resulted primarily from changes in transfer pricing, which is a function of revenue levels.

Interest and other expense, net

Interest and other expense, net was $6.5 million in the first nine months of 2014 compared with $15.4 million in the 2013 period. Interest and other expense, net in the first nine months of 2014 primarily reflected a foreign exchange loss of $3.1 million, a loss on conversion of the remaining convertible notes and the related interest, which amounted to $1.8 million, and interest expense of $1.0 million. The $15.4 million of interest and other expense, net in the first nine months of 2013 primarily reflected the loss on conversion of convertible notes, which amounted to $11.3 million and the related interest, which amounted to $2.6 million, of which $0.9 million represents non-cash amortization, and also reflected a foreign exchange loss of $0.3 million.

Provision for income taxes

We recorded a $5.4 million provision for income taxes in the first nine months of 2014 and a $14.6 million provision for income taxes in the first nine months of 2013. Our 2014 provision for income taxes reflects income taxes in U.S. and non-U.S. jurisdictions. The 2013 provision for income taxes primarily reflects income taxes in U.S. and non-U.S. jurisdictions, reduced by the reversal of ASC-740 provisions in non-U.S. jurisdictions.

Net income

Net income attributable to the Company for the first nine months of 2014 decreased $22.8 million to $10.1 million compared to $32.9 million in the first nine months of 2013.  The principal reasons for the decrease, which are discussed in more detail above, were:

• the $40.8 million decrease in operating income; partially offset by

• the $8.9 million decrease in interest and other expense and

• the $9.3 million decrease in our provision for income taxes.

For the nine months ended September 30, 2014, average common shares for basic and diluted earnings per share were 106.9 million and  basic and diluted earnings per share were $0.09. For the nine months ended September 30, 2013, average common shares for basic and diluted earnings per share were 96.9 million and basic and diluted earnings per share were $0.34.

Other Financial Information

In addition to our results determined under U.S. generally accepted accounting principles ("GAAP") discussed above, management believes non-GAAP financial measures, which adjust net income and earnings per share are useful to investors in evaluating our operating performance.

We use non-GAAP financial measures of adjusted net income and adjusted earnings per share to supplement our unaudited condensed consolidated financial statements presented on a GAAP basis to facilitate a better understanding of the impact that several strategic acquisitions had on our financial results.

These non-GAAP financial measures have not been prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies and they are subject to inherent limitations as they reflect the exercise of judgments by our management about which costs, expenses and other items are excluded from our GAAP financial statements in determining our non-GAAP financial measures. We have sought to compensate for these limitations by analyzing current and expected future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP financial statements as required in our public disclosures as well as reconciliations of our non-GAAP financial measures of adjusted net income and adjusted earnings per share to our GAAP financial statements.

The presentation of our non-GAAP financial measures which adjust net income and earnings per share are not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. These non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not to rely on any single financial measure to evaluate our business.

Our non-GAAP financial measures, which adjust net income and earnings per share, are adjusted for the following:

- Non-cash stock-based compensation expenses. We exclude the tax-effected stock-based compensation expenses from operating expenses primarily because they are non-cash.

- Amortization of intangibles. We exclude the tax-effected amortization of intangible assets from our cost of sales and operating expenses. The increase in recent periods is primarily in connection with acquisitions of businesses.

· Acquisition and severance expenses. We exclude the tax-effected charges associated with the acquisition of businesses and the related severance expenses from our operating expenses.

· Non-cash interest expenses. We exclude tax-effected non-cash interest expenses, primarily related to the costs associated with our senior convertible notes, from interest and other expenses, net.

· Loss on convertible notes. We exclude the tax-effected loss on conversion of convertible notes from interest and other expenses, net.

· Net loss on litigation and tax settlements. We exclude the tax-effected net gain or loss on acquisitions and litigation settlements from interest and other expense, net.

Reconciliation of GAAP Net Income to Non-GAAP Financial Measures

Table 11

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (in thousands, except per share amounts) | 2014 | 2013 | 2014 | 2013 |
| GAAP net income attributable to 3D Systems Corporation | $ 3,084 | $ 17,657 | $ 10,086 | $ 32,883 |
| Cost of sales adjustments: | | | | |
| Amortization of intangibles | 74 | 65 | 209 | 190 |
| Operating expense adjustments: | | | | |
| Amortization of intangibles | 11,032 | 6,141 | 28,301 | 14,912 |
| Acquisition and severance expenses | 1,441 | 655 | 4,836 | 5,357 |
| Non-cash stock-based compensation expense | 8,099 | 3,118 | 23,738 | 8,464 |
| Interest and other expense adjustments: | | | | |
| Non-cash interest expense | 31 | 127 | 225 | 880 |
| Loss on convertible notes | 1,806 | 2,022 | 1,806 | 11,275 |
| Net loss on litigation and tax settlements | — | 457 | — | 2,457 |
| Tax effect | (5,887) | (4,027) | (17,839) | (12,402) |
| Non-GAAP net income | $ 19,680 | $ 26,215 | $ 51,362 | $ 64,016 |
| | | | | |
| Non-GAAP basic and diluted earnings per share | $ 0.18 | $ 0.26 | $ 0.48 | $ 0.66 |

Financial Condition and Liquidity

Table 12

| (Dollars in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents | $ 377,335 | $ 306,316 |
| Working capital | $ 537,224 | $ 416,399 |
| Total stockholders' equity attributable to 3D Systems Corporation | $ 1,302,375 | $ 932,646 |

Our unrestricted cash and cash equivalents increased by $71.0 million to $377.3 million at September 30, 2014 from $306.3 million at December 31, 2013. We generated $27.9 million of cash from operating activities. Cash from operations consisted of $10.2 million of net income, including $50.8 million of non-cash charges and $33.1 million of cash used by net changes in operating accounts. We used $261.9 million of cash in investing activities, including $244.3 million to fund acquisitions and other investing activities. Cash from financing activities provided $307.9 million of cash, including $299.7 million of net proceeds from our common stock offering completed in May 2014. See Cash flow and Capitalized lease obligations below.

Cash and cash equivalents at September 30, 2014 includes $45.9 million of cash held overseas, compared to $19.9 million at December 31, 2013. Cash held overseas is used in our foreign operations for working capital purposes and is considered to be permanently invested; consequently, we have not provided for any taxes on repatriation.

Cash equivalents comprise funds held in money market instruments and are reported at their current carrying values, which approximate fair value due to the short-term nature of these instruments. We minimize our credit risk by investing primarily in investment grade, liquid instruments and limit exposure to any one issuer depending on credit quality.

Our net working capital increased by $120.8 million to $537.2 million at September 30, 2014 from $416.4 million at December 31, 2013, primarily due to the factors discussed below.

Accounts receivable, net, increased by $23.4 million to $155.5 million at September 30, 2014 from $132.1 million at December 31, 2013. Gross accounts receivable increased by $28.1 million from December 31, 2013. With a greater portion of our revenue mix shifting to resellers and retailers, as part of our planned business model evolution, a larger proportion of our sales are transacted on standard credit terms. The effect of this shift in our business model was exacerbated by the combined effect of the timing and concentration of orders during the last month of the quarter as a result of increasing demand, which has driven days sales outstanding to 86 days at September 30, 2014 from 79 days at December 31, 2013. Accounts receivable more than 90 days past due increased to 12.0% of gross receivables from 9.1% at December 31, 2013.

Inventories, net increased by $29.8 million to $104.9 million at September 30, 2014 from $75.1 million at December 31, 2013. This increase resulted primarily from an expanding product portfolio, acquired inventory, timing of orders, assembly production, and sales and revenue recognition at quarter-end. The increase in inventory reflects a $20.7 million increase in raw materials inventory and a $9.3 million increase in finished goods inventory. We maintained $6.4 million of inventory reserves at September 30, 2014 and $4.3 million of such reserves at December 31, 2013.

The majority of our inventory consists of finished goods, including products, materials and service parts. Inventory also consists of raw materials and spare parts for the in-house assembly and support service products. We outsource the assembly and refurbishment of certain production printers; therefore, we generally do not hold in inventory most parts for production printer assembly or refurbishment.

Prepaid expenses and other current assets increased by $7.2 million to $14.4 million at September 30, 2014 from $7.2 million at December 31, 2013. This increase is primarily due to prepaid materials and insurance.

The changes in the first nine months of 2014 that make up the other components of working capital not discussed above arose in the ordinary course of business.

Differences between the amounts of working capital item changes in the cash flow statement and the balance sheet changes for the corresponding items are primarily the result of foreign currency translation adjustments.

We have relied on our unrestricted cash, cash flow from operations and capital markets transactions to meet our cash requirements for working capital, capital expenditures and acquisitions; however, it is possible that we may need to raise additional funds to finance our activities beyond the next twelve months or to consummate significant acquisitions of other businesses, assets, products or technologies. If needed, we may be able to raise such funds by issuing equity or debt securities to the public or selected investors, or by borrowing from financial institutions, selling assets or restructuring debt.

Cash flow

The table below summarizes the cash provided by or used in operating activities, investing activities and financing activities, as well as the effect of changes in foreign currency exchange rates on cash, for the first nine months of 2014 and 2013.

Table 13

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| (Dollars in thousands) | | |
| Cash provided by operating activities | $ 27,898 | $ 28,522 |
| Cash used in investing activities | (261,920) | (122,518) |
| Cash provided by financing activities | 307,885 | 284,717 |
| Effect of exchange rate changes on cash | (2,844) | (1,224) |
| Net increase in cash and cash equivalents | $ 71,019 | $ 189,497 |

Cash flow from operating activities

For the nine months ended September 30, 2014, our operating activities provided $27.9 million of net cash. This source of cash consisted primarily of net income plus the effects of non-cash items and changes in working capital, which are described above. Our cash from operations fluctuates from quarter to quarter due to the timing of transactions and receipts and payments of cash.

For the nine months ended September 30, 2013, our operating activities provided $28.5 million of net cash. This source of cash consisted primarily of net income plus the effects of non-cash items and changes in working capital.

Cash flow from investing activities

Net cash used in investing activities for the first nine months of 2014 increased to $261.9 million from $122.5 million for the first nine months of 2013. This increase was primarily due to $244.3 million of cash paid for acquisitions in the first nine months of 2014 compared to $113.1 million paid for acquisitions in the 2013 period. Cash flow used in investing activities also includes minority investments of less than 20% made through 3D Ventures in promising enterprises that we believe will benefit from or be powered by our technologies and other investments or joint ventures. During the first nine months of 2014, we invested $0.3 million in these enterprises and ventures.

Cash flow from financing activities

Net cash provided by financing activities increased to $307.9 million for the nine months ended September 30, 2014 compared to $284.7 million in the 2013 period. Cash from financing activities for the first nine months of 2014 primarily included $299.7 million net proceeds from a common stock offering and $6.9 million of tax benefits from share-based payment arrangements. Cash from financing activities for the nine months ended September 30, 2013 included $272.1 million net proceeds from a common stock offering, $15.9 million of tax benefits from share-based payment arrangements, $0.5 million of stock-based compensation proceeds, partially offset by $0.2 million of cash paid in lieu of fractional shares and $3.7 million of capital lease payments.

Contractual commitments and off-balance sheet arrangements

Debt

In November 2011, the Company issued $152.0 million of 5.50% senior convertible notes due December 2016. The notes were issued with an effective yield of 5.96% based upon an original issue discount at 98.0%. The net proceeds from the issuance of these notes, after deducting original issue discount and capitalized issuance costs of $6.6 million, amounted to $145.4 million.

As of September 30, 2014, there is no outstanding balance for the Notes. All remaining Notes were converted during the third quarter of 2014, resulting in a loss of $1.8 million. See Note 8 to the unaudited condensed consolidated financial statements.

Capitalized lease obligations

Our capitalized lease obligations include lease agreements that we entered into during 2006 with respect to our Rock Hill facility and lease agreements assumed in the LayerWise acquisition. Our total capitalized lease obligations increased to $9.7 million at September 30, 2014 from $7.5 million at December 31, 2013 primarily due to the acquired $2.3 million of capital lease obligations in connection with the LayerWise acquisition, consisting of sale and leasebacks on laser-melting machines internally produced by LayerWise and used in their business. Our outstanding capitalized lease obligations carrying values at September 30, 2014 and December 31, 2013 were as follows:

Table 14

| (Dollars in thousands) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Capitalized lease obligations: | | |
| Current portion of capitalized lease obligations | $ 554 | $ 187 |
| Capitalized lease obligations, long-term portion | 9,117 | 7,277 |
| Total capitalized lease obligations | $ 9,671 | $ 7,464 |

Other contractual arrangements

Certain of our recent acquisitions contain earnout provisions under which the sellers of the acquired businesses can earn additional amounts. The total amount of liabilities recorded for these earnouts at September 30, 2014 and December 31, 2013 was $8.9 million and $5.6 million, respectively.

As of September 30, 2014, we have supply commitments related to printer assemblies that total $55.5 million compared to $41.1 million at December 31, 2013.

Off-balance sheet arrangements

We have no off-balance sheet arrangements and do not utilize any “structured debt,” “special purpose,” or similar unconsolidated entities for liquidity or financing purposes.

Financial instruments

We conduct business in various countries using both the functional currencies of those countries and other currencies to effect cross border transactions. As a result, we are subject to the risk that fluctuations in foreign exchange rates between the dates that those transactions are entered into and their respective settlement dates will result in a foreign exchange gain or loss. When practicable, we endeavor to match assets and liabilities in the same currency on our balance sheet and those of our subsidiaries in order to reduce these risks. We also, when we consider it to be appropriate, enter into foreign currency contracts to hedge exposures arising from those transactions.

We do not hedge or trade for speculative purposes, and our foreign currency contracts are generally short-term in nature, typically maturing in 90 days or less. We have elected not to prepare and maintain the documentation to qualify for hedge accounting treatment under ASC 815, “Derivatives and Hedging,” and therefore, we recognize all gains and losses (realized or unrealized) in interest and other expense, net in our unaudited condensed consolidated statements of operations and comprehensive income (loss).

There were no foreign exchange contracts at September 30, 2014 or December 31, 2013. See Note 7 of the unaudited condensed consolidated financial statements.

Changes in the fair value of derivatives are recorded in interest and other expense, net, in our unaudited condensed consolidated statements of operations and comprehensive income. Depending on their fair value at the end of the reporting period, derivatives are recorded either in prepaid and other current assets or in accrued liabilities in our unaudited condensed consolidated balance sheets.

The total impact of foreign currency related items on our unaudited condensed consolidated statements of operations and comprehensive income (loss) was a $3.1 million loss for the nine months ended September 30, 2014 and a $0.3 million loss for the nine months ended September 30, 2013 and a $9.1 million decrease in other comprehensive income for the nine months ended September 30, 2014 compared to a $5.7 million decrease in other comprehensive income for the first nine months of 2013.

## Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our unaudited condensed consolidated financial statements, see Note 1 to the unaudited condensed consolidated financial statements.

## Critical Accounting Policies and Significant Estimates

For a discussion of our critical accounting policies and estimates, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Significant Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Forward-Looking Statements

Certain statements made in this Form 10-Q that are not statements of historical or current facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include the cautionary statements and risk factors set forth below as well as other statements made in the Form 10-Q that may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results expressed or implied by such forward-looking statements.

In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in future or conditional tenses or that include terms such as “believes,” “belief,” “expects,” “intends,” “anticipates” or “plans” t uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs and expectations as to future events and trends affecting our business. Forward-looking statements are based upon management’s current expectations concerning future events and trends and are necessarily subject to uncertainties, many of which are outside of our control. The factors stated under the heading “Cautionary Statements and Risk Factors” set forth below and those described in our other SEC reports, including our Form 10-K for the year ended December 31, 2013, as well as other factors, could cause actual results to differ materially from those reflected or predicted in forward-looking statements.

Any forward-looking statements are based on management’s beliefs and assumptions, using information currently available to us. We assume no obligation and do not intend to update these forward-looking statements.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from those reflected in or suggested by forward-looking statements. Any forward-looking statement you read in this Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified or referred to in this Form 10-Q and our other SEC reports, including our Form 10-K for the year ended December 31, 2013, which would cause actual results to differ from those referred to in forward-looking statements.

Cautionary Statements and Risk Factors

We recognize that we are subject to a number of risks and uncertainties that may affect our future performance. The risks and uncertainties described in Item 1A in our Form 10-K for the year ended December 31, 2013 are not the only risks and uncertainties that we face. Additional risks and uncertainties not currently known to us or that we currently deem not to be material also may impair our business operations. If any of these risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock. The risks discussed in Item 1A in our Form 10-K for the year ended December 31, 2013 also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements.

Except as required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of market risks at December 31, 2013, refer to Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” in our Form 10-K for the year ended December 31, 2013. During the first nine months of 2014, there were no material changes or developments that would materially alter the market risk assessment performed as of December 31, 2013.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

As of September 30, 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") pursuant to Rules 13a-15 and 15d-15 under the Exchange Act. These controls and procedures were designed to provide reasonable assurance that the 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 in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures. Based on this evaluation, including an evaluation of the rules referred to above in this Item 4, management has concluded that our disclosure controls and procedures were effective as of September 30, 2014 to provide reasonable assurance that the information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a manner to allow timely decisions regarding required disclosures.

Changes in Internal Controls over Financial Reporting

There were no material changes in our internal controls over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in Note 15 of the unaudited condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Recent Issuances of Unregistered Securities

On August 6, 2014, as part of the consideration for the acquisition of certain assets of Bordner and Associates, Inc. d/b/a Laser Reproductions, we issued 85,415 unregistered shares of 3D Systems Corporation common stock to Bordner and Associates, Inc., which represented to us that it was an “Accredited Investor” as defined in Regulation D of the Securities Act of 1933, as amended, in reliance on the private offering exemptions contained in Section 4(2) of the Securities Act of 1933, as amended, and on Regulation D promulgated thereunder. The fair value of the consideration paid for this acquisition, net of cash acquired, was approximately $17,450,000, of which approximately $13,075,000 was paid in cash and $4,375,000 was paid in unregistered shares of the Company’s common stock.

Item 6. Exhibits.

The following exhibits are included as part of this filing and incorporated herein by this reference:

3.1 Certificate of Incorporation of Registrant. (Incorporated by reference to Exhibit 3.1 to Form 8-B filed on August 16, 1993, and the amendment thereto, filed on Form 8-B/A on February 4, 1994.)

3.2 Amendment to Certificate of Incorporation filed on May 23, 1995. (Incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-2/A, filed on May 25, 1995.)

3.3 Certificate of Designation of Rights, Preferences and Privileges of Preferred Stock. (Incorporated by reference to Exhibit 2 to Registrant's Registration Statement on Form 8-A filed on January 8, 1996.)

3.4 Certificate of Designation of the Series B Convertible Preferred Stock, filed with the Secretary of State of Delaware on May 2, 2003. (Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K, filed on May 7, 2003.)

3.5 Certificate of Elimination of Series A Preferred Stock filed with the Secretary of State of Delaware on March 4, 2004. (Incorporated by reference to Exhibit 3.6 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 15, 2004.)

3.6 Certificate of Elimination of Series B Preferred Stock filed with the Secretary of State of Delaware on September 9, 2006. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on September 9, 2006.)

3.7 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 19, 2004. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004, filed on August 5, 2004.)

3.8 Certificate of Amendment of Certificate of Incorporation filed with Secretary of State of Delaware on May 17, 2005. (Incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, filed on August 1, 2005.)

3.9 Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on October 7, 2011. (Incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 7, 2011.)

3.10 Certificate of Designations, Preferences and Rights of Series A Preferred Stock, filed with the Secretary of State of Delaware on December 9, 2008. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on December 9, 2008.)

3. 11 Certificate of Elimination of Series A Preferred Stock, filed with the Secretary of State of Delaware on November 14, 2013. (Incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K, filed on November 15, 2013.)

3.12 Amended and Restated By-Laws. (Incorporated by reference to Exhibit 3.2 of Registrant's Current Report on Form 8-K filed on December 1, 2006.)

3.13 Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on May 21, 2013. (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed on May 22, 2013.)

10.1 Credit Agreement, dated as of October 10, 2014, among 3D Systems Corporation, the Guarantors party thereto, PNC Bank, National Association, as Administrative Agent, PNC Capital Markets LLC, as Sole Lead Arranger and Sole Bookrunner, HSBC Bank USA, N.A., as Syndication Agent, and the other lender's party thereto. (Incorporated by reference to Exhibit 10.1 of Registrant's Current Report on Form 8-K filed on October 14, 2014.)

31.1 Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 10, 2014.

31.2 Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 10, 2014.

32.1 Certification of Principal Executive Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 10, 2014.

32.2 Certification of Principal Financial Officer filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 10, 2014.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURE

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.

3D Systems Corporation

By /s/ Damon J. Gregoire
Damon J. Gregoire
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
(Duly Authorized Officer)

Date: November 10, 2014