

VILLAGE SUPER MARKET INC

Form 10-Q

June 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: April 23, 2016

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-2633

VILLAGE SUPER MARKET, INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY

(State or other jurisdiction of incorporation or organization)

22-1576170

(I. R. S. Employer Identification No.)

733 MOUNTAIN AVENUE, SPRINGFIELD, NEW JERSEY 07081

(Address of principal executive offices)

(Zip Code)

(973) 467-2200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12-b2 of the Exchange Act.

~~Large~~ accelerated filer x
accelerated
filer

q
Non-accelerated
filer
q
(Do
not
~~Shell~~ reporting company q
if
a
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

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest
practicable date:

June 2, 2016

Class A Common Stock, No Par Value 9,808,625 Shares
Class B Common Stock, No Par Value 4,319,256 Shares

VILLAGE SUPER MARKET, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VILLAGE SUPER MARKET, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands) (Unaudited)

| | April 23, 2016 | July 25, 2015 |
|---|-------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$80,178 | \$59,040 |
| Merchandise inventories | 43,168 | 45,772 |
| Patronage dividend receivable | 8,727 | 12,831 |
| Income taxes receivable | — | 3,917 |
| Other current assets | 14,145 | 14,351 |
| Total current assets | 146,218 | 135,911 |
| Property, equipment and fixtures, net | 200,836 | 206,594 |
| Notes receivable from Wakefern | 42,287 | 41,421 |
| Investment in Wakefern | 26,467 | 25,750 |
| Goodwill | 12,057 | 12,057 |
| Other assets | 7,936 | 12,169 |
| Total assets | \$435,801 | \$433,902 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Capital and financing lease obligations | \$503 | \$469 |
| Notes payable to Wakefern | 375 | 430 |
| Accounts payable to Wakefern | 55,594 | 58,337 |
| Accounts payable and accrued expenses | 18,709 | 21,046 |
| Accrued wages and benefits | 15,656 | 15,117 |
| Income taxes payable | 1,203 | 765 |
| Total current liabilities | 92,040 | 96,164 |
| Long-term Debt | | |
| Capital and financing lease obligations | 43,317 | 43,699 |
| Notes payable to Wakefern | 456 | 726 |
| Total long-term debt | 43,773 | 44,425 |
| Pension liabilities | 23,463 | 32,232 |
| Other liabilities | 7,702 | 8,314 |
| Commitments and contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, no par value: Authorized 10,000 shares, none issued | — | — |
| Class A common stock, no par value: Authorized 20,000 shares; issued 10,190 shares at April 23, 2016 and 10,192 shares at July 25, 2015 | 53,978 | 51,618 |
| | 701 | 701 |

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Class B common stock, no par value: Authorized 20,000 shares; issued and outstanding 4,319 shares at April 23, 2016 and July 25, 2015

| | | |
|---|-----------|-----------|
| Retained earnings | 228,885 | 221,765 |
| Accumulated other comprehensive loss | (9,346) | (16,874) |
| Less treasury stock, Class A, at cost: 381 shares at April 23, 2016 and 343 shares at July 25, 2015 | (5,395) | (4,443) |
| Total shareholders' equity | 268,823 | 252,767 |
| Total liabilities and shareholders' equity | \$435,801 | \$433,902 |

See accompanying Notes to Consolidated Financial Statements.

VILLAGE SUPER MARKET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts) (Unaudited)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | April 23, 2016 | April 25, 2015 | April 23, 2016 | April 25, 2015 |
| Sales | \$387,905 | \$387,100 | \$1,197,603 | \$1,178,035 |
| Cost of sales | 281,167 | 280,002 | 872,653 | 857,008 |
| Gross profit | 106,738 | 107,098 | 324,950 | 321,027 |
| Operating and administrative expense | 90,851 | 90,848 | 277,432 | 272,307 |
| Depreciation and amortization | 5,822 | 5,676 | 17,840 | 17,573 |
| Operating income | 10,065 | 10,574 | 29,678 | 31,147 |
| Interest expense | (1,122) | (1,133) | (3,375) | (3,404) |
| Interest income | 659 | 603 | 1,788 | 1,829 |
| Income before income taxes | 9,602 | 10,044 | 28,091 | 29,572 |
| Income taxes | 3,720 | (3,162) | 11,495 | 5,884 |
| Net income | \$5,882 | \$13,206 | \$16,596 | \$23,688 |
| Net income per share: | | | | |
| Class A common stock: | | | | |
| Basic | \$0.47 | \$1.05 | \$1.31 | \$1.89 |
| Diluted | \$0.42 | \$0.93 | \$1.17 | \$1.68 |
| Class B common stock: | | | | |
| Basic | \$0.30 | \$0.68 | \$0.85 | \$1.23 |
| Diluted | \$0.30 | \$0.68 | \$0.85 | \$1.22 |

See accompanying Notes to Consolidated Financial Statements.

VILLAGE SUPER MARKET, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands) (Unaudited)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--|----------------|-----------|----------------|-----------|
| | April 23, | April 25, | April 23, | April 25, |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$5,882 | \$ 13,206 | \$16,596 | \$ 23,688 |
| Other comprehensive income: | | | | |
| Amortization of pension actuarial loss, net of tax (1) | 236 | 192 | 804 | 574 |
| Pension remeasurement, net of tax (2) | (4,394) | — | (4,394) | — |
| Pension curtailment gain, net of tax (3) | 11,118 | — | 11,118 | — |
| Comprehensive income | \$12,842 | \$ 13,398 | \$24,124 | \$ 24,262 |

(1) Amounts are net of tax of \$163 and \$132 for the 13 weeks ended April 23, 2016 and April 25, 2015, respectively, and

\$559 and \$398 for the 39 weeks ended April 23, 2016 and April 25, 2015, respectively. All amounts are reclassified from accumulated other comprehensive loss to operating and administrative expense.

(2) Amount is net of tax of \$3,034.

(3) Amount is net of tax of \$7,678.

See accompanying Notes to Consolidated Financial Statements.

VILLAGE SUPER MARKET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (Unaudited)

| | 39 Weeks Ended | |
|---|----------------|----------------|
| | April 23, 2016 | April 25, 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 16,596 | \$ 23,688 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,840 | 17,573 |
| Non-cash share-based compensation | 2,335 | 2,377 |
| Deferred taxes | (907) | 15,741 |
| Provision to value inventories at LIFO | 300 | 300 |
| Changes in assets and liabilities: | | |
| Merchandise inventories | 2,304 | (1,158) |
| Patronage dividend receivable | 4,104 | 3,894 |
| Accounts payable to Wakefern | (2,743) | (6,278) |
| Accounts payable and accrued expenses | (1,537) | (1,665) |
| Accrued wages and benefits | 539 | (1,235) |
| Income taxes payable/receivable | 4,355 | (52,045) |
| Other assets and liabilities | 3,495 | 6,332 |
| Net cash provided by operating activities | 46,681 | 7,524 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (13,784) | (17,264) |
| Proceeds from the sale of assets | 900 | — |
| Investment in notes receivable from Wakefern | (866) | (823) |
| Net cash used in investing activities | (13,750) | (18,087) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options | 51 | 2,392 |
| Excess tax benefit related to share-based compensation | — | 274 |
| Principal payments of long-term debt | (1,390) | (1,464) |
| Dividends | (9,476) | (9,412) |
| Treasury stock purchases | (978) | — |
| Net cash used in financing activities | (11,793) | (8,210) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 21,138 | (18,773) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 59,040 | 77,352 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 80,178 | \$ 58,579 |
| SUPPLEMENTAL DISCLOSURES OF CASH PAYMENTS MADE FOR: | | |
| Interest | \$ 3,375 | \$ 3,322 |
| Income taxes | \$ 8,047 | \$ 41,913 |

See accompanying Notes to Consolidated Financial Statements.

VILLAGE SUPER MARKET, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands) (Unaudited)

1. BASIS OF PRESENTATION and ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly the consolidated financial position as of April 23, 2016 and the consolidated statements of operations, comprehensive income and cash flows for the 13 and 39 week periods ended April 23, 2016 and April 25, 2015 of Village Super Market, Inc. ("Village" or the "Company").

The significant accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the July 25, 2015 Village Super Market, Inc. Annual Report on Form 10-K, which should be read in conjunction with these financial statements. The results of operations for the periods ended April 23, 2016 are not necessarily indicative of the results to be expected for the full year.

Certain amounts have been reclassified in the consolidated statement of cash flows for the 39 week period ended April 25, 2015 to conform to the presentation for the 39 week period ended April 23, 2016.

2. MERCHANDISE INVENTORIES

At both April 23, 2016 and July 25, 2015, approximately 65% of merchandise inventories are valued by the LIFO method while the balance is valued by FIFO. If the FIFO method had been used for the entire inventory, inventories would have been \$14,993 and \$14,693 higher than reported at April 23, 2016 and July 25, 2015, respectively.

3. NET INCOME PER SHARE

The Company has two classes of common stock. Class A common stock is entitled to cash dividends as declared 54% greater than those paid on Class B common stock. Shares of Class B common stock are convertible on a share-for-share basis for Class A common stock at any time.

The Company utilizes the two-class method of computing and presenting net income per share. The two-class method is an earnings allocation formula that calculates basic and diluted net income per share for each class of common stock separately based on dividends declared and participation rights in undistributed earnings. Under the two-class method, Class A common stock is assumed to receive a 54% greater participation in undistributed earnings than Class B common stock, in accordance with the classes' respective dividend rights. Unvested share-based payment awards that contain nonforfeitable rights to dividends are treated as participating securities and therefore included in computing net income per share using the two-class method.

Diluted net income per share for Class A common stock is calculated utilizing the if-converted method, which assumes the conversion of all shares of Class B common stock to Class A common stock on a share-for-share basis, as this method is more dilutive than the two-class method. Diluted net income per share for Class B common stock does not assume conversion of Class B common stock to shares of Class A common stock.

The tables below reconcile the numerators and denominators of basic and diluted net income per share for all periods presented.

| | 13 Weeks Ended April 23, 2016 | | 39 Weeks Ended April 23, 2016 | |
|--|----------------------------------|---------|----------------------------------|---------|
| | Class A | Class B | Class A | Class B |
| Numerator: | | | | |
| Net income allocated, basic | \$4,455 | \$1,308 | \$12,563 | \$3,686 |
| Conversion of Class B to Class A shares | 1,308 | — | 3,686 | — |
| Effect of share-based compensation on allocated net income | — | — | — | — |
| Net income allocated, diluted | \$5,763 | \$1,308 | \$16,249 | \$3,686 |
| Denominator: | | | | |
| Weighted average shares outstanding, basic | 9,559 | 4,319 | 9,566 | 4,319 |
| Conversion of Class B to Class A shares | 4,319 | — | 4,319 | — |
| Dilutive effect of share-based compensation | — | — | — | — |
| Weighted average shares outstanding, diluted | 13,878 | 4,319 | 13,885 | 4,319 |

| | 13 Weeks Ended April 25, 2015 | | 39 Weeks Ended April 25, 2015 | |
|--|----------------------------------|---------|----------------------------------|---------|
| | Class A | Class B | Class A | Class B |
| Numerator: | | | | |
| Net income allocated, basic | \$9,936 | \$2,976 | \$17,806 | \$5,346 |
| Conversion of Class B to Class A shares | 2,976 | — | 5,346 | — |
| Effect of share-based compensation on allocated net income | 26 | (19) | 37 | (21) |
| Net income allocated, diluted | \$12,938 | \$2,957 | \$23,189 | \$5,325 |
| Denominator: | | | | |
| Weighted average shares outstanding, basic | 9,449 | 4,361 | 9,423 | 4,361 |
| Conversion of Class B to Class A shares | 4,361 | — | 4,361 | — |
| Dilutive effect of share-based compensation | 107 | — | 50 | — |
| Weighted average shares outstanding, diluted | 13,917 | 4,361 | 13,834 | 4,361 |

Outstanding stock options to purchase Class A shares of 466 and 233 were excluded from the calculation of diluted net income per share at April 23, 2016 and April 25, 2015, respectively, as a result of their anti-dilutive effect. In addition, 250 and 271 non-vested restricted Class A shares, which are considered participating securities, and their allocated net income were excluded from the diluted net income per share calculation at April 23, 2016 and April 25, 2015, respectively, due to their anti-dilutive effect.

4. PENSION PLANS

The Company sponsors four defined benefit pension plans. Net periodic pension cost for the four plans includes the following components:

| | 13 Weeks Ended April 23, 2016 | | 39 Weeks Ended April 25, 2015 | |
|--|----------------------------------|---------|----------------------------------|---------|
| Service cost | \$774 | \$910 | \$2,982 | \$2,730 |
| Interest cost on projected benefit obligations | 770 | 764 | 2,424 | 2,292 |
| Expected return on plan assets | (927) | (928) | (2,807) | (2,784) |
| Amortization of net losses | 399 | 324 | 1,363 | 972 |
| Net periodic pension cost | \$1,016 | \$1,070 | \$3,962 | \$3,210 |

On February 15, 2016, the Company amended the Village Super Market Employees Retirement Plan, which covers non-union employees and pharmacists, to freeze all benefits effective March 31, 2016. As a result of this amendment, the Company recognized a pre-tax curtailment gain totaling \$18,796 which was partially offset by a pre-tax remeasurement adjustment totaling \$7,428 in accumulated other comprehensive loss during the third quarter ended April 23, 2016. The remeasurement had no impact on the consolidated statements of operations. Assumptions used in the remeasurement include a discount rate of 3.78% and long-term expected rate of return on plan assets of 7.50%.

As of April 23, 2016, the Company has not made contributions to its pension plans in fiscal 2016. The Company expects to contribute approximately \$3,000 during fiscal 2016 to fund its pension plans.

5. INCOME TAXES

In prior years, the state of New Jersey issued two separate tax assessments related to nexus beginning in fiscal 2000 and the deductibility of certain payments between subsidiaries beginning in fiscal 2002. Village contested both of these assessments through the state's conference and appeals process and was subsequently denied. The Company then filed two complaints in Tax Court against the New Jersey Division of Taxation (the "Division") contesting these assessments and a trial limited to the nexus dispute was conducted in June 2013. On October 23, 2013, the Tax Court issued their opinion on the matter in favor of the Division. As a result, the Company recorded a \$10,052 charge, net of federal benefit, to income tax expense in the fiscal quarter ended October 26, 2013, to increase unrecognized tax benefits and related interest and penalties for tax positions taken in prior years.

On February 27, 2015, the Company reached an agreement with the Division whereby the Company paid \$33,000 in March 2015 to settle the disputes with the Division for fiscal years 2000 through 2014. Net of federal benefit, the total cash outflow as a result of the settlement was approximately \$21,000. Under the terms of the agreement, the Company withdrew its appeal of the Tax Court opinion on the nexus dispute. In addition, the case pending on the deductibility of certain payments between subsidiaries has been dismissed and the Division has withdrawn the related assessments. The Company recorded an income tax benefit of \$7,293, net of federal taxes, in the fiscal quarter ending April 25, 2015 to reverse remaining unrecognized tax benefits and related interest and penalties in excess of the settlement. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

| | 39 Weeks Ended April 25, 2016 | | 2015 | |
|------------------------------|--|----------|------|--|
| Balance at beginning of year | \$514 | \$27,846 | | |

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| | | |
|--|--------|-----------|
| Additions based on tax positions related to the current year | 86 | 46 |
| Reductions based on tax positions related to prior periods | — | (546) |
| Cash paid on settlements | — | (26,862) |
| Balance at end of period | \$ 600 | \$ 484 |

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The Company recognizes interest and penalties on income taxes in income tax expense. The Company recognized a benefit of \$9,811 (\$6,396 net of federal and state taxes) related to interest and penalties on income taxes in the 39 weeks ended April 25, 2015.

6. RELATED PARTY INFORMATION - WAKEFERN

A description of the Company's transactions with Wakefern, its principal supplier, and with other related parties is included in the Company's Annual Report on Form 10-K for the year ended July 25, 2015. There have been no significant changes in the Company's relationships or nature of transactions with related parties during the first 39 weeks of fiscal 2016 except for an additional required investment in Wakefern common stock of \$717.

Included in cash and cash equivalents at April 23, 2016 and July 25, 2015 are \$55,278 and \$35,428, respectively, of demand deposits invested at Wakefern at overnight money market rates.

7. COMMITMENTS and CONTINGENCIES

Superstorm Sandy devastated our area on October 29, 2012 and resulted in the closure of almost all of our stores for periods of time ranging from a few hours to eight days. Village disposed of substantial amounts of perishable product and also incurred repair, labor and other costs as a result of the storm. The Company has property, casualty and business interruption insurance, subject to deductibles and coverage limits. During fiscal 2013, Wakefern began the process of working with our insurers to recover the damages and Village recorded estimated insurance recoveries of \$4,913, of which \$2,643 was collected in fiscal 2013 and 2014. In October 2013, Wakefern, as the policy holder, filed suit against the carrier seeking payment of the remaining claims due for all Wakefern members. The suit was the result of different interpretations of policy terms, including whether the policy's named storm deductible applied. On October 29, 2014, the Court issued their opinion on the matter in favor of the carrier. Based on this decision and its related impact, the Company concluded that recovery of further proceeds was not probable and recorded a \$2,270 charge to operating and administrative expense in the first quarter of fiscal 2015 to write-off the remaining insurance receivable. Wakefern continues to pursue further recovery of uncollected amounts from the carrier and other sources. As a result, the Company received an additional \$940 in insurance proceeds in February 2016 which was recognized as a reduction in Operating and administrative expense in the 13 weeks ended April 23, 2016. Any further proceeds recovered will be recognized as they are received.

The Company is involved in other litigation incidental to the normal course of business. Company management is of the opinion that the ultimate resolution of these legal proceedings should not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

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

(Dollars in Thousands)

OVERVIEW

Village Super Market, Inc. (the "Company" or "Village") operates a chain of 29 ShopRite supermarkets in New Jersey, Maryland and northeastern Pennsylvania. Village is the second largest member of Wakefern Food Corporation ("Wakefern"), the nation's largest retailer-owned food cooperative and owner of the ShopRite name. As further described in the Company's Form 10-K, this ownership interest in Wakefern provides Village many of the economies of scale in purchasing, distribution, advanced retail technology, marketing and advertising associated with larger chains.

The supermarket industry is highly competitive and characterized by narrow profit margins. The Company competes directly with multiple retail formats, including national, regional and local supermarket chains as well as warehouse clubs, supercenters, drug stores, discount general merchandise stores, fast food chains, restaurants, dollar stores and convenience stores. Village competes by using low pricing, superior customer service, and a broad range of consistently available quality products, including ShopRite private labeled products. The ShopRite Price Plus card also strengthens customer loyalty.

The Company's stores, six of which are owned, average 59,000 total square feet. On November 6, 2013, Village opened a 77,000 sq. ft. store in Hanover Township, New Jersey that serves the greater Morristown area and replaced the 40,000 sq. ft. Morris Plains store. On April 30, 2014, Village opened a 59,000 sq. ft. store in Union, New Jersey and closed our existing 40,000 sq. ft. store. The remodel and expansion of the Stirling, New Jersey store to 68,000 sq. ft. was completed in October 2015. These larger store sizes enable the Company's stores to provide a "one-stop" shopping experience and to feature expanded higher margin specialty departments such as an on-site bakery, an expanded delicatessen, a variety of natural and organic foods, ethnic and international foods, prepared foods and pharmacies.

Many of our stores emphasize a Power Alley, which features high margin, fresh, convenience offerings in an area within the store that provides quick customer entry and exit for those customers shopping for today's lunch or dinner. Four of our stores include the Village Food Garden concept that features a restaurant style kitchen, and several kiosks offering a wide variety of store prepared specialty foods for both take-home and in-store dining.

Village also has on-site registered dieticians in fifteen stores that provide customers with free, private consultations on healthy meals and proper nutrition, as well as leading health related events both in store and in the community as part of the Live Right with ShopRite program. We have thirteen stores that offer ShopRite from Home covering most of the communities served by our stores. ShopRite from Home is an online ordering system that provides for in-store pickup or home delivery. Customers can browse our circular, create and edit shopping lists and use ShopRite from Home through shoprite.com or on their smart phones or tablets through the ShopRite app.

We consider a variety of indicators to evaluate our performance, such as same store sales; percentage of total sales by department (mix); shrink; departmental gross profit percentage; sales per labor hour; units per labor hour; and hourly labor rates.

RESULTS OF OPERATIONS

The following table sets forth the major components of the Consolidated Statements of Operations as a percentage of sales:

| | 13 Weeks Ended | | 39 Weeks Ended | |
|--------------------------------------|----------------|-----------|----------------|-----------|
| | April 23, | April 25, | April 23, | April 25, |
| | 2016 | 2015 | 2016 | 2015 |
| Sales | 100.00 % | 100.00 % | 100.00 % | 100.00 % |
| Cost of sales | 72.48 | 72.33 | 72.87 | 72.75 |
| Gross profit | 27.52 | 27.67 | 27.13 | 27.25 |
| Operating and administrative expense | 23.42 | 23.47 | 23.17 | 23.12 |
| Depreciation and amortization | 1.50 | 1.48 | 1.48 | 1.49 |
| Operating income | 2.60 | 2.72 | 2.48 | 2.64 |
| Interest expense | (0.29) | (0.29) | (0.28) | (0.29) |
| Interest income | 0.17 | 0.16 | 0.15 | 0.16 |
| Income before taxes | 2.48 | 2.59 | 2.35 | 2.51 |
| Income taxes | 0.96 | (0.82) | 0.96 | 0.50 |
| Net income | 1.52 % | 3.41 % | 1.39 % | 2.01 % |

Sales. Sales were \$387,905 in the third quarter of fiscal 2016 an increase of .2% compared to the third quarter of the prior year. Same store sales increased .2% primarily due to the closing of two competitor stores and continued sales growth in the expanded or replaced stores in Stirling and Greater Morristown. These increases were partially offset by lower sales in the first week of the third quarter of fiscal 2016 due to Winter Storm Jonas, six new competitor store openings, including stores formerly operated by A&P. The Company expects same store sales in fiscal 2016 to range from a 0.5% to 1.5% increase. New stores and replacement stores are included in same store sales in the quarter after the store has been in operation for four full quarters. Store renovations and expansions are included in same store sales immediately. All stores are included in same store sales in the 13 weeks ended April 23, 2016.

Sales were \$1,197,603 in the nine-month period of fiscal 2016, an increase of 1.7% from the nine-month period of the prior year. Same store sales increased 1.7% primarily due to the closing of two competitor stores and continued sales growth in the recently expanded or replaced Stirling, Greater Morristown and Union stores. These increases were partially offset by six competitor store openings, including stores formerly operated by A&P, and deflation in the meat, seafood and dairy departments.

Gross Profit. Gross profit as a percentage of sales decreased .15% in the third quarter of fiscal 2016 compared to the third quarter of the prior year primarily due to decreased departmental gross margin percentages (.06%), increased warehouse assessment charges from Wakefern (.04%), and increased promotional spending (.04%).

Gross profit as a percentage of sales decreased .12% in the nine-month period of fiscal 2016 compared to the nine-month period of the prior year primarily due to decreased departmental gross margin percentages (.13%).

Operating and Administrative Expense. Operating and administrative expense as a percentage of sales decreased .05% in the third quarter of fiscal 2016 compared to the third quarter of the prior year. As described in note 7 to the unaudited consolidated financial statements, the third quarter of fiscal 2016 includes a gain for Superstorm Sandy insurance proceeds received (.24%). Excluding this gain, Operating and administrative expense as a percentage of sales increased .19% due primarily to increased healthcare costs (.30%) partially offset by lower payroll (.11%). The increase in healthcare costs is due primarily to higher claim costs in our self-insured medical plan.

Operating and administrative expense as a percentage of sales increased .05% in the nine-month period of fiscal 2016 compared to the nine-month period of the prior year. As described in note 7 to the unaudited consolidated financial statements, the nine-month period of the prior year includes a charge to write-off all remaining Superstorm Sandy insurance receivables (.19%) and the nine-month period of fiscal 2016 includes a gain related to recovery of a portion of those receivables (.08%). Excluding these items from both periods, Operating and administrative expense as a percentage of sales increased .32% due primarily to higher fringe benefit costs (.25%) and legal and consulting fees (.11%). Fringe benefit costs increased due primarily to higher

healthcare costs (.16%) and pension expense (.07%). The increase in healthcare costs is due primarily to higher claim costs in our self-insured medical plan.

Depreciation and Amortization. Depreciation and amortization expense increased in the third quarter and nine-month period of fiscal 2016 compared to the corresponding periods of the prior year due to depreciation related to fixed asset additions.

Interest Expense. Interest expense in the third quarter and nine-month period of fiscal 2016 was flat compared to the corresponding periods of the prior year.

Interest Income. Interest income increased in the third quarter of fiscal 2016 compared to the corresponding period of the prior year due to higher amounts invested. Interest income decreased in the nine-month period of fiscal 2016 compared to the corresponding period of the prior year due to less amounts invested.

Income Taxes. The effective income tax rate was 38.7% in the third quarter of fiscal 2016 compared to (31.5%) in the third quarter of the prior year. In the third quarter of fiscal 2016, the Company recognized income tax benefits of \$309 in return to provision adjustments primarily related to Work Opportunity Tax Credits. Income taxes in the third quarter of the prior year included a tax benefit of \$7,293 as a result of the settlement with the New Jersey Division of Taxation. Excluding these items from both fiscal years, the effective income tax rate was 42.0% in the third quarter of fiscal 2016 as compared to 41.1% in the third quarter of the prior year.

The effective income tax rate was 40.9% in the nine-month period of fiscal 2016 compared to 19.9% in the nine-month period of the prior year. In fiscal 2016, the Company recognized income tax benefits of \$309 in return to provision adjustments primarily related to Work Opportunity Tax Credits. Income taxes in the nine-month period of fiscal 2015 included includes a tax benefit of \$6,452 related to the settlement with the New Jersey Division of Taxation, net of \$841 of interest and penalties accrued prior to settlement. Excluding these items from both fiscal years, the effective income tax rate was 42.0% in the nine-month period of fiscal 2016 as compared to 41.7% in the nine-month period of the of the prior year.

Net Income. Net income was \$5,882 in the third quarter of fiscal 2016 compared to \$13,206 in the third quarter of the prior year. The third quarter of fiscal 2016 includes a \$545 (net of tax) gain due to the recovery of insurance receivables related to Superstorm Sandy. The third quarter of the prior year included a tax benefit of \$7,293 as a result of the settlement with the New Jersey Division of Taxation. Excluding these items from both periods, net income decreased 10% in the third quarter of fiscal 2016 compared to the prior year due primarily to lower sales in the first week of the third quarter of fiscal 2016 due to the impact of Winter Storm Jonas, a lower gross profit percentage and higher operating and administrative expense.

Net income was \$16,596 in the nine-month period of fiscal 2016 compared to \$23,688 in the nine-month period of the prior year. Fiscal 2016 includes a \$545 (net of tax) gain due to the recovery of insurance receivables related to Superstorm Sandy. Fiscal 2015 includes a charge to write-off all remaining insurance receivables related to Superstorm Sandy of \$1,340 (net of tax) and a tax benefit of \$6,452 related to settlement of the New Jersey tax dispute, net of interest and penalties accrued in fiscal 2015 prior to settlement. Excluding these items from both periods, net income decreased 14% in the nine-month period of fiscal 2016 compared to the prior year primarily due to a lower gross profit percentage and higher operating and administrative expense.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those accounting policies that management believes are important to the portrayal of the Company's financial condition and results of operations. These policies require management's most difficult,

subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's critical accounting policies relating to the impairment of long-lived assets and goodwill, accounting for patronage dividends earned as a stockholder of Wakefern, accounting for pension plans, and accounting for uncertain tax positions, are described in the Company's Annual Report on Form 10-K for the year ended July 25, 2015. As of April 23, 2016, there have been no changes to any of the critical accounting policies contained therein.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$46,681 in the 39-week period of fiscal 2016 compared to \$7,524 in the corresponding period of the prior year. This increase is primarily attributable to the \$33,000 settlement with the New Jersey Division of Taxation in the prior year, decreased inventory and changes in the timing of payables. During the 39-week period of fiscal 2016, Village used cash to fund capital expenditures of \$13,784 and dividends of \$9,476. Capital expenditures primarily include costs associated with remodels of existing stores. In October 2015, Village sold the land and building of a closed store in Washington, New Jersey for \$900.

Village expects capital expenditures of \$20,000 in fiscal 2016. Planned expenditures include the completion of the expansion and remodel of the Stirling, New Jersey store, one major remodel and several smaller remodels. The Company's primary sources of liquidity in fiscal 2016 are expected to be cash and cash equivalents on hand at April 23, 2016 and operating cash flow generated in fiscal 2016.

Working capital was \$54,178 at April 23, 2016 compared to \$39,747 at July 25, 2015. The working capital ratio was 1.6 to 1 at April 23, 2016 and 1.4 to 1 at July 25, 2015. The Company's working capital needs are reduced, since inventories are generally sold by the time payments to Wakefern and other suppliers are due.

Village has an unsecured revolving credit agreement providing a maximum amount available for borrowing of \$25,000. On December 1, 2015, this loan agreement was extended to expire on December 31, 2017. The revolving credit line can be used for general corporate purposes. Indebtedness under this agreement bears interest at the prime rate, or at the Eurodollar rate, at the Company's option, plus applicable margins based on the Company's fixed charge coverage ratio. There were no amounts outstanding at April 23, 2016 or July 25, 2015 under this facility.

There have been no substantial changes as of April 23, 2016 to the contractual obligations and commitments discussed in the Company's Annual Report on Form 10-K for the year ended July 25, 2015.

OUTLOOK

This Form 10-Q contains certain forward-looking statements about Village's future performance. These statements are based on management's assumptions and beliefs in light of information currently available. Such statements relate to, for example: same store sales; economic conditions; expected pension plan contributions; projected capital expenditures; cash flow requirements; inflation expectations; and legal matters; and are indicated by words such as "will," "expect," "should," "intend," "anticipates," "believes" and similar words or phrases. The Company cautions the reader there is no assurance that actual results or business conditions will not differ materially from the results expressed, suggested or implied by such forward-looking statements. The Company undertakes no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof.

- We expect same store sales to increase from .5% to 1.5% in fiscal 2016.

- We have budgeted \$20,000 for capital expenditures in fiscal 2016. Planned expenditures include the completion of the expansion and remodel of the Stirling, New Jersey store, one major remodel and several smaller remodels.

- The Board's current intention is to continue to pay quarterly dividends in 2016 at the most recent rate of \$.25 per Class A and \$.1625 per Class B share.

- We believe cash flow from operations and other sources of liquidity will be adequate to meet anticipated requirements for working capital, capital expenditures and debt payments for the foreseeable future.

- We expect our effective income tax rate in fiscal 2016 to be in the range of 41.0% - 42.0%.

- We expect operating expenses will be affected by increased costs in certain areas, such as medical and other fringe benefit costs.

Various uncertainties and other factors could cause actual results to differ from the forward-looking statements contained in this report. These include:

The supermarket business is highly competitive and characterized by narrow profit margins. Results of operations may be materially adversely impacted by competitive pricing and promotional programs, industry consolidation and competitor store openings. Village competes with national and regional supermarkets, local supermarkets, warehouse club stores, supercenters, drug stores, convenience stores, dollar stores, discount merchandisers, restaurants and other local retailers. Some of these competitors have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do.

The Company's stores are concentrated in New Jersey, with one store in northeastern Pennsylvania and two in Maryland. We are vulnerable to economic downturns in New Jersey in addition to those that may affect the country as a whole. External factors such as inflation, deflation, interest rate fluctuations, movements in energy costs, social programs, minimum wage legislation, unemployment rates and changing demographics may adversely affect our sales and profits.

In July 2011 Village acquired two stores in Maryland, a new market for Village where the ShopRite name is less known than in New Jersey. While we continue to invest in marketing and promotional programs to build market share, sales trends for our Maryland stores have deteriorated in fiscal 2016 and remain worse than initially projected. If these trends continue, it could result in impairment charges on long-lived assets specific to the Maryland stores that could materially impact the Company's results of operations.

Village purchases substantially all of its merchandise from Wakefern. In addition, Wakefern provides the Company with support services in numerous areas including supplies, advertising, liability and property insurance, technology support and other store services. Further, Village receives patronage dividends and other product incentives from Wakefern. Any material change in Wakefern's method of operation or a termination or material modification of Village's relationship with Wakefern could have an adverse impact on the conduct of the Company's business and could involve additional expense for Village. The failure of any Wakefern member to fulfill its obligations to Wakefern or a member's insolvency or withdrawal from Wakefern could result in increased costs to the Company. Additionally, an adverse change in Wakefern's results of operations could have an adverse effect on Village's results of operations.

Approximately 92% of our employees are covered by collective bargaining agreements. Any work stoppages could have an adverse impact on our financial results. If we are unable to control wage increases, health care and pension costs provided for in the collective bargaining agreements, we may experience increased operating costs.

Village could be adversely affected if consumers lose confidence in the safety and quality of the food supply chain.

The real or perceived sale of contaminated food products by us could result in a loss of consumer confidence and product liability claims, which could have a material adverse effect on our sales and operations.

Certain of the multi-employer plans to which we contribute are underfunded. As a result, we expect that contributions to these plans may increase. Additionally, the benefit levels and related items will be issues in the negotiation of our collective bargaining agreements. Under current law, an employer that withdraws or partially withdraws from a multi-employer pension plan may incur a withdrawal liability to the plan, which represents the portion of the plan's underfunding that is allocable to the withdrawing employer under very complex actuarial and allocation rules. The failure of a withdrawing employer to fund these obligations can impact remaining employers. The amount of any increase or decrease in our required contributions to these multi-employer pension plans will depend upon the outcome of collective bargaining, actions taken by trustees who manage the plans, government regulations, withdrawals by other participating employers and the actual return on assets held in the plans, among other factors.

Our long-lived assets, primarily stores, are subject to periodic testing for impairment. Failure of our asset groups to achieve sufficient levels of cash flow could result in impairment charges on long-lived assets.

Our effective tax rate may be impacted by the results of tax examinations and changes in tax laws.

Wakefern provides all members of the cooperative with information system support that enables us to effectively manage our business data, customer transactions, ordering, communications and other business processes. These information systems are subject to damage or interruption from power outages, computer or telecommunications failures, computer viruses and related malicious software, catastrophic weather events, or human error. Any material interruption of our or Wakefern's information systems could have a material adverse impact on our results of operations.

Due to the nature of our business, personal information about our customers, vendors and associates is received and stored in these information systems. In addition, confidential information is transmitted through our ShopRite from Home online business at shoprite.com and through the ShopRite app. Unauthorized parties may attempt to access information stored in or to sabotage or disrupt these systems. Wakefern and the Company maintain substantial security measures to prevent and detect unauthorized access to such information, including utilizing third-party service providers for monitoring our networks, security reviews, and other functions. It is possible that computer hackers, cyber terrorists and others may be able to defeat the security measures in place at Wakefern or those of third-party service providers.

Any breach of these security measures and loss of confidential information, which could be undetected for a period of time, could damage our reputation with customers, vendors and associates, cause Wakefern and Village to incur significant costs to protect any customers, vendors and associates whose personal data was compromised, cause us to make changes to our information systems and could result in government enforcement actions and litigation against Wakefern and/or Village from outside parties. Any such breach could have a material adverse impact on our operations, consolidated financial condition, results of operations, and liquidity if the related costs to Wakefern and Village are not covered or are in excess of carried insurance policies. In addition, a security breach could require Wakefern and Village to devote significant management resources to address problems created by the security breach and restore our reputation.

RELATED PARTY TRANSACTIONS

See note 6 to the unaudited consolidated financial statements for information on related party transactions.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the potential impact of ASU No. 2014-09 on its financial statements.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidations Analysis", which changes the guidance for evaluating whether to consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities. Further, the amendments eliminate the presumption that a general partner should consolidate a limited partnership, as well as affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The updated guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. Companies have an option of using either a full retrospective or modified retrospective adoption approach. The Company is evaluating the effect that ASU 2015-02 will have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which requires an entity to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with earlier adoption permitted. The new guidance can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The adoption of ASU 2015-17 is not expected to have a significant effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." This guidance requires lessees to recognize lease liabilities and a right-of-use asset for all leases with terms of more than 12 months on the balance sheet. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with earlier adoption permitted. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." The guidance changes several aspects of the accounting for share-based payment award transactions, including accounting for income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with earlier adoption permitted. The Company is evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At April 23, 2016, the Company had demand deposits of \$55,278 at Wakefern earning interest at overnight money market rates, which are exposed to the impact of interest rate changes.

At April 23, 2016, the Company had \$42,287 in notes receivable due from Wakefern. Half of these notes earn interest at the prime rate plus .25% and mature on August 15, 2017 and half earn interest at the prime rate plus 1.25% and

mature on February 15, 2019. Wakefern has the right to prepay these notes at any time. Under certain conditions, the Company can require Wakefern to prepay the notes, although interest earned since inception would be reduced as if it was earned based on overnight money market rates as paid by Wakefern on demand deposits.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures at the end of the period. This evaluation was carried out under the supervision, and with the participation, of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer, along with the Company's Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in

the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the quarter ended April 23, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ITEM 2C. ISSUER PURCHASES OF EQUITY SECURITIES

The number and average price of shares purchased in each fiscal month of the third quarter of fiscal 2016 are set forth in the table below:

| Period(1) | Total Number of Shares Purchased(2) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|-------------------------------------|------------------------------|--|--|
| January 24, 2016 to February 20, 2016 | 10,000 | \$24.90 | 10,000 | \$4,261,200 |
| February 21, 2016 to March 19, 2016 | — | — | — | \$4,261,200 |
| March 20, 2016 to April 23, 2016 | 10,000 | \$23.87 | 10,000 | \$4,022,500 |
| Total | 20,000 | \$24.38 | 20,000 | \$4,022,500 |

(1) The reported periods conform to our fiscal calendar.

(2) Includes shares repurchased under a \$5.0 million repurchase program of the Company's Class A Common Stock authorized by the Board of Directors and announced on June 12, 2015. Repurchases may be made from time-to-time through a variety of methods, including open market purchases and other negotiated transactions, including through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934.

Item 6. Exhibits

Exhibit 31.1 Certification

Exhibit 31.2 Certification

Exhibit 32.1 Certification (furnished, not filed)

Exhibit 32.2 Certification (furnished, not filed)

Exhibit 99.1 Press Release dated June 2, 2016

101 INS XBRL Instance

101 SCH XBRL Schema

101 CAL XBRL Calculation

101 DEF XBRL Definition

101 LAB XBRL Label

101 PRE XBRL Presentation

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SIGNATURES

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

Village Super Market, Inc.
Registrant

Dated: June 2, 2016 /s/ James Sumas
James Sumas
(Chief Executive Officer)

Dated: June 2, 2016 /s/ John Van Orden
John Van Orden
(Chief Financial Officer)