VILLAGE SUPER MARKET INC
Form 10-Q
December 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: October 28, 2006

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 (Address of principal executive offices)	07081 (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12-b2 of the Exchange Act. (Check one):

Large accelerated filer ________	Accelerated filer ________	Non-accelerated filer ___ X___

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:

	December 4, 2006
Class A Common Stock, No Par Value	1,642,913 Shares
Class B Common Stock, No Par Value	1,594,076 Shares

VILLAGE SUPER MARKET, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VILLAGE SUPER MARKET, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(in Thousands) (Unaudited)

	October 28, 2006	July 29, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 42,402	$ 74,711
Merchandise inventories	30,646	29,523
Patronage dividend receivable	7,958	5,740
Other current assets	9,856	9,809
Total current assets	90,862	119,783
Notes receivable from Wakefern	27,762	----
Property, equipment and fixtures, net	122,440	122,539
Investment in Wakefern, at cost	16,391	15,670
Goodwill	10,605	10,605
Other assets	2,872	2,878
TOTAL ASSETS	$ 270,932	$ 271,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$ 5,845	$ 5,845
Current portion of notes payable to Wakefern	1,040	580
Accounts payable to Wakefern	41,565	43,791
Accounts payable and accrued expenses	27,392	25,471
Total current liabilities	75,842	75,687
Long-term debt	22,227	26,892
Notes payable to Wakefern	327	218
Other liabilities	18,286	18,173
Commitments and contingencies		
Shareholders' equity		
Class A common stock - no par value, issued 1,818 shares	21,184	20,909
Class B common stock - no par value, 1,594 shares issued and outstanding	1,035	1,035
Retained earnings	137,287	133,818
Accumulated other comprehensive loss	(2,801)	(2,801)
Less cost of 175 Class A treasury shares	(2,455)	(2,456)
Total shareholders' equity	154,250	150,505
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 270,932	$ 271,475

See accompanying Notes to Consolidated Condensed Financial Statements.

VILLAGE SUPER MARKET, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(in Thousands) (Unaudited)

	13 Weeks Ended October 28, 2006	13 Weeks Ended October 29, 2005
Sales	$ 251,469	$ 243,445
Cost of sales	184,091	180,036
Gross profit	67,378	63,409
Operating and administrative expense	57,181	55,090
Depreciation and amortization	2,987	2,802
Operating income	7,210	5,517
Interest expense	715	813
Interest income	(769)	(386)
Income before income taxes	7,264	5,090
Income taxes	3,044	2,122
Net income	$ 4,220	$ 2,968
Net income per share:		
Basic	$ 1.32	$ .93
Diluted	$ 1.30	$ .92

See accompanying Notes to Consolidated Condensed Financial Statements.

VILLAGE SUPER MARKET, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(in Thousands) (Unaudited)

	13 Wks. Ended Oct. 28, 2006	13 Wks.Ended Oct. 29, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,220	$ 2,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of assets	---	(410)
Depreciation and amortization	2,987	2,802
Deferred taxes	(225)	300
Provision to value inventories at LIFO	250	250
Non-cash share-based compensation	272	265
Changes in assets and liabilities:		
Merchandise inventories	(1,373)	(677)
Patronage dividend receivable	(2,218)	(2,182)
Accounts payable to Wakefern	(2,226)	(1,276)
Accounts payable and accrued expenses	1,921	1,178
Other assets and liabilities	297	(750)
Net cash provided by operating activities	3,905	2,468
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in notes receivable from Wakefern	(27,762)	---
Capital expenditures	(2,888)	(3,072)
Proceeds from sale of assets	---	430
Net cash used in investing activities	(30,650)	(2,642)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	1	---
Tax benefit related to share-based compensation	2	---
Principal payments of long-term debt	(4,816)	(5,035)
Dividends	(751)	(841)
Net cash used in financial activities	(5,564)	(5,876)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,309)	(6,050)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	74,711	62,842
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 42,402	$ 56,792
SUPPLEMENTAL DISCLOSURES OF CASH PAYMENTS MADE FOR		
Interest	$ 1,126	$ 1,289
Income taxes	$ 635	$ 300
NONCASH SUPPLEMENTAL DISCLOSURES:		
Investment in Wakefern	$ 721	$ ---

See accompanying Notes to Consolidated Condensed Financial Statements.

VILLAGE SUPER MARKET, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(in Thousands) (Unaudited)

1. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly the consolidated financial position as of October 28, 2006 and the consolidated results of operations and cash flows for the thirteen week periods ended October 28, 2006 and October 29, 2005.

The significant accounting policies followed by Village Super Market, Inc. (the “Company”) are set forth in Note 1 to the Company's consolidated financial statements in the July 29, 2006 Village Super Market, Inc. Annual Report on Form 10-K, which should be read in conjunction with these financial statements.

2. The results of operations for the period ended October 28, 2006 are not necessarily indicative of the results to be expected for the full year.

3. At both October 28, 2006 and July 29, 2006, approximately 70% 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 $12,045 and $11,795 higher than reported at October 28, 2006 and July 29, 2006, respectively.

4. The number of common shares outstanding for calculation of net income per share is as follows:

	October 28, 2006	October 29, 2005
Weighted average shares outstanding - basic	3,185	3,184
Dilutive effect of share-based compensation	59	51
Weighted average shares outstanding - diluted	3,244	3,235

Options to purchase 2 Class A shares were excluded from the calculation of diluted net income per share at October 28, 2006 as a result of their anti-dilutive effect (none at October 29, 2005).

5. Comprehensive income was $4,220 and $2,968 for the quarters ended October 28, 2006 and October 29, 2005, respectively, the same as net income in each quarter.

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

	13 Weeks Ended October 28, 2006	13 Weeks Ended October 29, 2005
Service cost	$ 480	$ 524
Interest cost on projected benefit obligations	408	363
Expected return on plan assets	(310)	(263)
Net amortization and deferral	185	269
Net periodic pension cost	$ 763	$ 893

As of October 28, 2006, the Company has contributed $91 to its pension plans in fiscal 2007. The Company expects to contribute an additional $1,909 during the remainder of fiscal 2007 to fund its pension plans.

7. On September 29, 2006 the Company invested $27,762 in notes receivable from Wakefern. These funds were previously invested in demand deposits at Wakefern. The initial fifteen month term of these notes will automatically be extended for additional, recurring 90 day periods unless, not later than one year prior to the due date, the Company notifies Wakefern requesting payment on the due date. Approximately half of these notes earn interest at the prime rate less 1.25% and approximately half of the notes earn a fixed rate of 7%. In September 2006, the Company increased its investment in Wakefern common stock by $721.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands)

OVERVIEW

The Company operates a chain of 23 ShopRite supermarkets in New Jersey and eastern Pennsylvania. The Company is the second largest member of Wakefern Food Corporation ("Wakefern"), the nation's largest retailer-owned food cooperative. As further described in the Company's Form 10-K, this ownership interest in Wakefern provides the Company many of the economies of scale in purchasing, distribution, advanced retail technology and advertising associated with larger chains.

The Company's stores, five of which are owned, average 55,000 total square feet. Larger store sizes enable the Company to offer the specialty departments that customers desire for one-stop shopping, including pharmacies, natural and organic departments, ethnic and international foods, and home meal replacement.

We consider a variety of indicators to evaluate our performance, such as same store sales; sales per store; percentage of total sales by department (mix); shrink; departmental gross profit percentage; sales per labor hour; and hourly labor rates. In recent years, the Company, as well as many of our competitors, has faced substantial increases in employee health and pension costs and in rates charged by utilities for electricity and gas. These trends are expected to continue in fiscal 2007.

RESULTS OF OPERATIONS

Sales. Sales were $251,469 in the first quarter of fiscal 2007, an increase of 3.3% from the first quarter of the prior year. Same store sales also increased 3.3%. Improved sales in the recently remodeled Springfield and Bernardsville stores and the replacement store in Somers Point contributed to the sales increase. These improvements were partially offset by reduced sales in one store due to a competitive store opening. An additional competitive store opening occurred in early November and is expected to impact the second quarter of fiscal 2007. 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 are included in same store sales immediately.

Gross Profit. Gross profit as a percentage of sales increased to 26.8% in the first quarter of fiscal 2007 compared to 26.0% in the first quarter of the prior year. As a percentage of sales, gross profit increased primarily due to higher gross margins in most departments (.36%), lower promotional spending (.27%) and improved product mix (.11%).

Operating and Administrative Expense. Operating and administrative expense as a percentage of sales increased to 22.7% in the first quarter of fiscal 2007 compared to 22.6% in the first quarter of the prior year. As a percentage of sales, operating and administrative expense increased primarily due to increased repair and maintenance (.10%) and utility costs (.07%). These increases were partially offset by lower payroll costs (.11%).

Depreciation and Amortization. Depreciation and amortization expense increased in the first quarter of fiscal 2007 compared to the first quarter of the prior year due to depreciation on fixed asset additions.

Interest Expense. Interest expense decreased in the first quarter of fiscal 2007 compared to the first quarter of the prior year due to reductions in debt outstanding.

Interest Income. Interest income increased in the first quarter of fiscal 2007 compared to the first quarter of the prior year primarily due to higher rates received on excess cash invested at Wakefern.

Income Taxes. The effective income tax rate was 41.9% in the first quarter of fiscal 2007 compared to 41.7% in the first quarter of the prior year.

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, and accounting for pension plans are described in the Company's Annual Report on Form 10-K for the year ended July 29, 2006. As of October 28, 2006, 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 $3,905 in the first quarter of fiscal 2007 compared with $2,468 in the first quarter of the prior year. This increase is primarily attributable to higher net income in the current fiscal year.

During the first quarter of fiscal 2007, the Company used cash on hand and operating cash flow of $3,905 to fund capital expenditures of $2,888, debt payments of $4,816 and dividends of $751. Debt payments made include the fourth installment of $4,286 on the Company's unsecured Senior Notes. On September 29, 2006 the Company invested $27,762 in notes receivable from Wakefern. These funds were previously invested in demand deposits at Wakefern. The initial fifteen month term of these notes will automatically be extended for additional, recurring 90 day periods unless, not later than one year prior to the due date, the Company notifies Wakefern requesting payment on the due date. Approximately half of these notes earn interest at the prime rate less 1.25% and approximately half of the notes earn a fixed rate of 7%.

Working capital was $15,020 at October 28, 2006 compared to $44,096 at July 29, 2006. The working capital ratio was 1.20 to 1 at October 28, 2006 compared to 1.58 to 1 at July 29, 2006. Working capital declined primarily due to the investment of excess cash in fifteen month notes receivable from Wakefern. The Company's working capital needs are reduced, since inventory is generally sold by the time payments to Wakefern and other suppliers are due.

The Company has budgeted $14,000 for capital expenditures in fiscal 2007. The Rio Grande remodel was completed in the first quarter. The construction of a new store in Franklin, New Jersey is expected to begin during the second quarter of fiscal 2007. The Company's primary sources of liquidity in fiscal 2007 are expected to be cash and cash equivalents on hand and operating cash flow generated in fiscal 2007. There have been no substantial changes as of October 28, 2006 to the contractual obligations and commitments discussed on page 7 of the Company's Annual Report on Form 10-K for the year ended July 29, 2006.

RELATED PARTY TRANSACTIONS

A description of the Company's transactions with Wakefern, its principal supplier, and with other related parties is included on pages 7, 8, 16 and 19 of the Company's Annual Report on Form 10-K for the year ended July 29, 2006. There have been no significant changes in the Company's relationship or nature of transactions with related parties during the first quarter of fiscal 2007 except for the investment in notes receivable from Wakefern described previously herein and an additional required investment in Wakefern common stock of $721.

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical fact, included in this Form 10-Q are or may be considered forward-looking statements within the meaning of federal securities law. The Company cautions the reader that there is no assurance that actual results or business conditions will not differ materially from future results, whether 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. The following are among the principal factors that could cause actual results to differ from the forward-looking statements: local economic conditions; competitive pressures from the Company's operating environment; the ability of the Company to maintain and improve its sales and margins; the ability to attract and retain qualified associates; the availability of new store locations; the availability of capital; the liquidity of the Company; the success of operating initiatives; consumer spending patterns; the impact of higher energy prices; increased cost of goods sold, including increased costs from the Company's principal supplier, Wakefern; the results of union contract negotiations; competitive store openings; the rate of return on pension assets; and other factors detailed herein and in other filings of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks arising from adverse changes in interest rates. As of October 28, 2006 the Company's only variable rate borrowings relate to an interest rate swap agreement. On October 18, 2001, the Company entered into an interest rate swap agreement with a major financial institution pursuant to which the Company pays a variable rate of six-month LIBOR plus 3.36% (8.76% at October 28, 2006) on an initial notional amount of $10,000 expiring in September 2009 in exchange for a fixed rate of 8.12%. The swap agreement notional amount decreases in amounts and on dates corresponding to the fixed rate obligation it hedges. At October 28, 2006 the remaining notional amount of the swap agreement was $4,286. A 1% increase in interest rates, applied to the Company's borrowings at October 28, 2006 would result in an annual increase in interest expense and a corresponding reduction in cash flow of approximately $43. The fair value of the Company's fixed rate debt is also affected by changes in interest rates.

At October 28, 2006, the Company had demand deposits of $26,747 at Wakefern earning interest at overnight money market rates, which are exposed to the impact of interest rate changes. At October 28, 2006 the Company had $27,762 of fifteen month notes receivable due from Wakefern. Approximately half of these notes earn a fixed rate of interest of 7% and approximately half earn prime less 1.25%.

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 controls and other procedures that 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 significant changes in internal controls over financial reporting during the first quarter of fiscal 2007.

PART II - OTHER INFORMATION

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 December 5, 2006

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

Date: December 5, 2006

/s/ James Sumas
James Sumas
(Chief Executive Officer)

Date: December 5, 2006

/s/ Kevin R. Begley
Kevin R. Begley
(Chief Financial Officer)