

VILLAGE SUPER MARKET INC

Form 10-Q

December 05, 2017

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: October 28, 2017

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   
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

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

December 5, 2017

Class A Common Stock, No Par Value 10,086,783 Shares  
Class B Common Stock, No Par Value 4,303,748 Shares

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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)

	October 28, 2017	July 29, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 74,591	\$ 87,435
Merchandise inventories	42,471	41,852
Patronage dividend receivable	17,152	12,655
Notes receivable from Wakefern	—	22,118
Income taxes receivable	106	1,742
Other current assets	17,957	15,670
Total current assets	152,277	181,472
Property, equipment and fixtures, net	204,147	204,440
Notes receivable from Wakefern	45,100	22,562
Investment in Wakefern	27,093	27,093
Goodwill	12,057	12,057
Other assets	8,234	7,601
Total assets	\$ 448,908	\$ 455,225
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Capital and financing lease obligations	\$ 696	\$ 652
Notes payable to Wakefern	291	292
Accounts payable to Wakefern	56,670	59,556
Accounts payable and accrued expenses	15,413	17,279
Accrued wages and benefits	15,921	17,810
Income taxes payable	1,106	604
Total current liabilities	90,097	96,193
Long-term debt		
Capital and financing lease obligations	42,352	42,532
Notes payable to Wakefern	41	114
Total long-term debt	42,393	42,646
Pension liabilities	14,558	15,194
Other liabilities	14,447	14,372
Commitments and contingencies		
Shareholders' equity		
Preferred stock, no par value: Authorized 10,000 shares, none issued	—	—
	58,717	57,852

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Class A common stock, no par value: Authorized 20,000 shares; issued 10,570 shares at October 28, 2017 and 10,562 shares at July 29, 2017		
Class B common stock, no par value: Authorized 20,000 shares; issued and outstanding 4,304 shares at October 28, 2017 and July 29, 2017	699	699
Retained earnings	244,106	244,308
Accumulated other comprehensive loss	(7,322 )	(7,406 )
Less treasury stock, Class A, at cost: 483 shares at October 28, 2017 and 477 shares at July 29, 2017	(8,787 )	(8,633 )
Total shareholders' equity	287,413	286,820
Total liabilities and shareholders' equity	\$ 448,908	\$ 455,225

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	
	October 28, 2017	October 29, 2016
Sales	\$386,474	\$389,692
Cost of sales	282,595	285,044
Gross profit	103,879	104,648
Operating and administrative expense	92,292	91,131
Depreciation and amortization	6,235	6,063
Operating income	5,352	7,454
Interest expense	(1,105 )	(1,117 )
Interest income	900	688
Income before income taxes	5,147	7,025
Income taxes	2,131	2,916
Net income	\$3,016	\$4,109
Net income per share:		
Class A common stock:		
Basic	\$0.23	\$0.32
Diluted	\$0.21	\$0.29
Class B common stock:		
Basic	\$0.15	\$0.21
Diluted	\$0.15	\$0.21

See accompanying Notes to Consolidated Financial Statements.

VILLAGE SUPER MARKET, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands) (Unaudited)

	13 Weeks Ended	
	October 28, 2017	October 29, 2016
Net income	\$3,016	\$ 4,109
Other comprehensive income:		
Amortization of pension actuarial loss, net of tax (1)	84	267
Comprehensive income	\$3,100	\$ 4,376

Amounts are net of tax of \$58 and \$111 for the 13 weeks ended October 28, 2017 and October 29, 2016, (1) respectively. All amounts are reclassified from accumulated other comprehensive loss to operating and administrative expense.

See accompanying Notes to Consolidated Financial Statements.

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

	13 Weeks Ended	
	October 28, 2017	October 29, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$3,016	\$ 4,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,235	6,063
Non-cash share-based compensation	865	797
Deferred taxes	(7 )	(26 )
Changes in assets and liabilities:		
Merchandise inventories	(619 )	(1,224 )
Patronage dividend receivable	(4,497 )	(4,636 )
Accounts payable to Wakefern	(2,886 )	(3,053 )
Accounts payable and accrued expenses	(1,163 )	(118 )
Accrued wages and benefits	(1,889 )	(1,271 )
Income taxes receivable / payable	2,138	(11,787 )
Other assets and liabilities	(3,422 )	(1,171 )
Net cash used in operating activities	(2,229 )	(12,317 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(6,629 )	(6,795 )
Proceeds from the sale of assets	16	—
Investment in notes receivable from Wakefern	(22,592 )	(459 )
Maturity of notes receivable from Wakefern	22,172	—
Net cash used in investing activities	(7,033 )	(7,254 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	—	396
Excess tax benefit related to share-based compensation	—	32
Principal payments of long-term debt	(210 )	(216 )
Dividends	(3,218 )	(3,162 )
Treasury stock purchases	(154 )	—
Net cash used in financing activities	(3,582 )	(2,950 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(12,844 )</b>	<b>(22,521 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>87,435</b>	<b>88,379</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$74,591</b>	<b>\$ 65,858</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH PAYMENTS MADE FOR:</b>		
Interest	\$1,105	\$ 1,117
Income taxes	\$—	\$ 14,700
<b>NONCASH SUPPLEMENTAL DISCLOSURES:</b>		

Investment in Wakefern and increase in notes payable to Wakefern	\$—	\$ 626
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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 October 28, 2017 and the consolidated statements of operations, comprehensive income and cash flows for the 13 week periods ended October 28, 2017 and October 29, 2016 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 29, 2017 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 October 28, 2017 are not necessarily indicative of the results to be expected for the full year.

### 2. MERCHANDISE INVENTORIES

At both October 28, 2017 and July 29, 2017, 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 \$14,410 higher than reported at both October 28, 2017 and July 29, 2017.

### 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 October 28, 2017	
	Class A	Class B
Numerator:		
Net income allocated, basic	\$2,277	\$655
Conversion of Class B to Class A shares	655	—
Effect of share-based compensation on allocated net income	(1 )	(1 )
Net income allocated, diluted	\$2,931	\$654
Denominator:		
Weighted average shares outstanding, basic	9,722	4,304
Conversion of Class B to Class A shares	4,304	—
Dilutive effect of share-based compensation	—	—
Weighted average shares outstanding, diluted	14,026	4,304

	13 Weeks Ended October 29, 2016	
	Class A	Class B
Numerator:		
Net income allocated, basic	\$3,116	\$912
Conversion of Class B to Class A shares	912	—
Effect of share-based compensation on allocated net income	2	(1 )
Net income allocated, diluted	\$4,030	\$911
Denominator:		
Weighted average shares outstanding, basic	9,592	4,319
Conversion of Class B to Class A shares	4,319	—
Dilutive effect of share-based compensation	49	—
Weighted average shares outstanding, diluted	13,960	4,319

Outstanding stock options to purchase Class A shares of 380 and 5 were excluded from the calculation of diluted net income per share at October 28, 2017 and October 29, 2016, respectively, as a result of their anti-dilutive effect. In addition, 369 and 250 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 October 28, 2017 and October 29, 2016, 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	
	October 28,	October 29,
	2017	2016
Service cost	\$65	\$ 139
Interest cost on projected benefit obligations	629	604
Expected return on plan assets	(820)	(973 )
Amortization of net losses	142	378
Net periodic pension cost	\$16	\$ 148

On November 29, 2016, the Company amended the Village Super Market Local 72 Retail Clerks Employees' Retirement Plan, which covers union employees in the Stroudsburg store, to freeze all benefits effective January 31, 2017. As a result of this amendment, the Company recognized a pre-tax remeasurement gain totaling \$629 in accumulated other comprehensive loss during fiscal 2017. The remeasurement had no impact on the consolidated statements of operations.

As of October 28, 2017, the Company has contributed \$510 to its pension plans in fiscal 2018. The Company expects to contribute approximately \$3,500 during fiscal 2018 to fund its pension plans.

#### 5. 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 29, 2017. There have been no significant changes in the Company's relationships or nature of transactions with related parties during the first 13 weeks of fiscal 2018 except for the maturity of \$22,172 in notes receivable from Wakefern that earned interest at the prime rate plus .25% on August 15, 2017. The Company invested \$22,000 of the proceeds received in variable rate notes receivable from Wakefern that earn interest at the prime rate plus 1.25% and mature on August 15, 2022. 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.

Included in cash and cash equivalents at October 28, 2017 and July 29, 2017 are \$53,789 and \$60,037, respectively, of demand deposits invested at Wakefern at overnight money market rates.

#### 6. COMMITMENTS and CONTINGENCIES

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.

#### 7. SUBSEQUENT EVENT

Effective November 9, 2017, the Company entered into a credit agreement that amends, restates and supersedes in its entirety the loan agreement dated September 16, 1999 and all amendments to that agreement. The agreement maintains Village's unsecured revolving line of credit providing a maximum amount available for borrowing of \$25,000, and extends the credit agreement to December 31, 2020. The revolving credit line can be used for general corporate purposes. Indebtedness under this agreement bears interest at the applicable LIBOR rate plus 1.25%. The credit agreement continues to provide for up to \$3,000 of letters of credit, which secure obligations for construction performance guarantees to municipalities. The credit agreement continues to contain covenants that, among other conditions, require a maximum liabilities to tangible net worth ratio, a minimum fixed charge coverage ratio and a positive net income. There were no amounts outstanding at October 28, 2017 or July 29, 2017 under the superseded facility.



## 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, private label products, advanced retail technology, marketing and advertising associated with chains of greater size and geographic coverage.

The supermarket industry is highly competitive and characterized by narrow profit margins. The Company competes directly with multiple retail formats, both in-store and online, 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, providing a superior customer service experience and a broad range of consistently available quality products (including ShopRite private labeled products). The ShopRite Price Plus preferred customer program enables Village to offer continuity programs, focus on target marketing initiatives and to offer discounts and attach digital coupons directly to a customer's Price Plus card.

The Company's stores, six of which are owned, average 59,000 total square feet. 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. Certain of our stores include the Village Food Garden concept featuring 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 seventeen 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 Well Everyday 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	
	October 28, 2017	October 29, 2016
Sales	100.00 %	100.00 %
Cost of sales	73.12	73.15
Gross profit	26.88	26.85
Operating and administrative expense	23.88	23.39
Depreciation and amortization	1.61	1.55
Operating income	1.39	1.91
Interest expense	(0.29 )	(0.29 )
Interest income	0.23	0.18
Income before taxes	1.33	1.80
Income taxes	0.55	0.75
Net income	0.78 %	1.05 %

**Sales.** Sales were \$386,474 in the first quarter of fiscal 2018, a decrease of 0.8% compared to the first quarter of the prior year. Same store sales decreased 0.8% due primarily to four competitor store openings. Although the Company cannot accurately determine the precise impact of inflation or deflation on operations due to changes in product mix, customer buying patterns and competitive factors, we estimate that product prices experienced slight inflation as increases in most departments were partially offset by deflation in the pharmacy and meat departments. The Company expects same store sales in fiscal 2018 to range from a 2.0% decrease to flat. 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.

**Gross Profit.** Gross profit as a percentage of sales increased .03% in the first quarter of fiscal 2018 compared to the first quarter of the prior year primarily due to a favorable change in product mix (.12%) and increased departmental gross margin percentages (.11%) partially offset by increased warehouse assessment charges from Wakefern (.07%) and increased promotional spending (.13%).

**Operating and Administrative Expense.** Operating and administrative expense as a percentage of sales increased .49% in the first quarter of fiscal 2018 compared to the first quarter of the prior year due primarily to increased payroll costs (.46%). Payroll costs increased due primarily to reduced operating leverage as a result of the same store sales decrease and investments in service departments and training initiatives.

**Depreciation and Amortization.** Depreciation and amortization expense increased in the first quarter of fiscal 2018 compared to the corresponding periods of the prior year due to depreciation related to fixed asset additions.

**Interest Expense.** Interest expense in the first quarter of fiscal 2018 was flat compared to the corresponding period of the prior year.

**Interest Income.** Interest income increased in the first quarter of fiscal 2018 compared to the corresponding period of the prior year due to higher amounts invested in demand deposits at Wakefern and higher interest rates earned on notes receivable from Wakefern.

Income Taxes. The effective income tax rate was 41.4% in the first quarter of fiscal 2018 compared to 41.5% in the first quarter of the prior year.

Net Income. Net income was \$3,016 in the first quarter of fiscal 2018 compared to \$4,109 in the first quarter of the prior year. Net income decreased 27% in the first quarter of fiscal 2018 compared to the prior year due primarily the same store sales decrease and higher operating and administrative expenses.

## 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, 2017. As no material uncertain tax positions remain in the Company's financial condition and results of operations, the company has updated its critical accounting policies to exclude accounting for uncertain tax positions. As of October 28, 2017, there have been no other changes to 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 used in operating activities was \$2,229 in the three-month period of fiscal 2018 compared to net cash used in operating activities of \$12,317 in the corresponding period of the prior year. The decrease in net cash used in operating activities in fiscal 2018 was primarily due to changes in working capital and net income adjusted for non-cash expenses including depreciation and amortization, share-based compensation and deferred taxes. Working capital changes increased net cash used in operating activities in fiscal 2018 by \$12,338 and increased net cash used in operating activities by \$23,260 in fiscal 2017. The larger impact of working capital changes in fiscal 2017 is due primarily to changes in income taxes receivable/payable as a result of the timing of estimated tax payments.

During the three-month period of fiscal 2018, Village used cash to fund capital expenditures of \$6,629, dividends of \$3,218 and invested an additional \$420 in notes receivable from Wakefern, net of proceeds received on matured notes. Capital expenditures primarily include costs associated with several smaller remodels.

At October 28, 2017, the Company had \$45,100 in variable rate notes receivable due from Wakefern that earn interest at the prime rate plus 1.25% with \$22,944 that mature on February 15, 2019 and \$22,156 that mature on August 15, 2022. On August 15, 2017, notes receivable due from Wakefern of \$22,142 that earned interest at the prime rate plus .25% matured. The Company invested \$22,000 of the proceeds received in variable rate notes receivable from Wakefern that mature on August 15, 2022. 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.

Village has budgeted approximately \$50,000 for capital expenditures in fiscal 2018. Planned expenditures include construction of a new store in the Bronx, New York, a replacement store, two major remodels, several smaller remodels and various technology upgrade projects. The Company's primary sources of liquidity in fiscal 2018 are expected to be cash and cash equivalents on hand at October 28, 2017 and operating cash flow generated in fiscal 2018.

Working capital was \$62,180 at October 28, 2017 compared to \$85,279 at July 29, 2017. Working capital ratios at the same dates were 1.69 and 1.89 to 1, respectively. The decrease in working capital in fiscal 2018 compared to fiscal

2017 is due primarily to maturity of \$22,142 in notes receivable from Wakefern, of which \$22,000 was reinvested in long-term notes receivable from Wakefern. The Company's working capital needs are reduced, since inventories are generally sold by the time payments to Wakefern and other suppliers are due.

Effective November 9, 2017, the Company entered into a credit agreement that amends, restates and supersedes in its entirety the loan agreement dated September 16, 1999 and all amendments to that agreement. The agreement maintains Village's unsecured revolving line of credit providing a maximum amount available for borrowing of \$25,000, and extends the credit agreement to December 31, 2020. The revolving credit line can be used for general corporate purposes. Indebtedness under this agreement bears interest at the applicable LIBOR rate plus 1.25%. The credit agreement continues to provide for up to \$3,000,000 of letters of credit, which secure obligations for construction performance guarantees to municipalities. The credit agreement continues to contain covenants that, among other conditions, require a maximum liabilities to tangible net worth ratio, a minimum

fixed charge coverage ratio and a positive net income. There were no amounts outstanding at October 28, 2017 or July 29, 2017 under the superseded facility.

There have been no other substantial changes as of October 28, 2017 to the contractual obligations and commitments discussed in the Company's Annual Report on Form 10-K for the year ended July 29, 2017.

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## 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 range from a decrease of 2.0% to flat in fiscal 2018. We expect sales trends to be negatively impacted by several local competitor store openings and continued competitive pressure on retail price inflation.

We have budgeted \$50,000 for capital expenditures in fiscal 2018. Planned expenditures include construction of a new store in the Bronx, New York, a replacement store, two major remodels, several smaller remodels and various technology upgrade projects.

The Board's current intention is to continue to pay quarterly dividends in 2018 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 2018 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.

We expect approximately \$100 of net periodic pension costs in fiscal 2018 related to the four Company sponsored defined benefit pension plans. The Company expects to contribute \$3,500 in cash to all defined benefit pension plans in fiscal 2018.

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 directly with multiple retail formats both in-store and online, 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. 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 two stores in Maryland and one in northeastern Pennsylvania. We are vulnerable to economic downturns in New Jersey in addition to those that may affect the country as a whole. Economic conditions 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.

Village purchases substantially all of its merchandise from Wakefern. In addition, Wakefern provides the Company with support services in numerous areas including advertising, liability and property insurance, supplies, certain equipment purchasing, coupon processing, certain financial accounting applications, retail technology support, and other store services. Further, Village receives patronage dividends and other product incentives from Wakefern and also has demand deposits and notes receivable due 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 or solvency could have an adverse effect on Village's results of operations.

Approximately 91% 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 health care and pension costs provided for in the collective bargaining agreements, we may experience increased operating costs.

The Company 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.

The Company uses a combination of insurance and self-insurance to provide for potential liability for workers' compensation, automobile and general liability, property, director and officers' liability, and certain employee health care benefits. Any projection of losses is subject to a high degree of variability. Changes in legal claims, 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 insolvency of insurance carriers could all affect our financial condition, results of operations, or cash flows.

Our long-lived assets, primarily store property, equipment and fixtures, 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 the Company, 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 5 to the unaudited consolidated financial statements for information on related party transactions.

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## RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued 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 expects to adopt the new standard in the first quarter of its fiscal year ending July 27, 2019. The Company is currently assessing the potential impact of ASU No. 2014-09 on its financial statements. The Company does not anticipate it will have a material impact on its recognition of revenue at the point of sale, and is continuing to identify and assess transactions that may be affected by the new standard.

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. The Company expects to adopt the new standard in the first quarter of its fiscal year ending July 25, 2020. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial adoption. The adoption of ASU 2016-02 will result in a significant increase to the Company's Consolidated Balance Sheets for lease liabilities and right-of-use assets, and the Company is currently evaluating the other effects of adoption of this standard on its consolidated financial statements and related disclosures.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At October 28, 2017, the Company had demand deposits of \$53,789 at Wakefern earning interest at overnight money market rates, which are exposed to the impact of interest rate changes.

At October 28, 2017, the Company had \$45,100 in notes receivable due from Wakefern that earn interest at the prime rate plus 1.25% with \$22,944 that mature on February 15, 2019 and \$22,156 that mature on August 15, 2022. 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 October 28, 2017 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 first quarter of fiscal 2018 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
July 30, 2017 to August 26, 2017	5,461	\$23.99	5,461	\$2,032,268
August 27, 2017 to September 23, 2017	1,012	\$23.02	1,012	\$2,008,972
September 24, 2017 to October 28, 2017	—	\$—	—	\$2,008,972
Total	6,473	\$23.83	6,473	\$2,008,972

(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 December 5, 2017

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: December 5, 2017 /s/ James Sumas  
James Sumas  
(Chief Executive Officer)

Dated: December 5, 2017 /s/ John Van Orden  
John Van Orden  
(Chief Financial Officer)