

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 22-1576170
(State or other jurisdiction of incorporation or organization) (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 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 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:

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,	April 25,
	2016	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.

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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		39 Weeks Ended	
	April 23,	April 25,	April 23,	April 25,
	2016	2015	2016	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 rereasurement adjustment totaling \$7,428 in accumulated other comprehensive loss during the third quarter ended April 23, 2016. The rereasurement had no impact on the consolidated statements of operations. Assumptions used in the rereasurement 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 23,	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