VILLAGE SUPER MARKET INC
Form 10-Q
March 08, 2018

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: January 27, 2018

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 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 x

q
Non-accelerated filer q (Do not check if a smaller reporting company)

Smaller reporting company q

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:

	March 7, 2018
Class A Common Stock, No Par Value	10,065,045 Shares
Class B Common Stock, No Par Value	4,303,748 Shares

VILLAGE SUPER MARKET, INC.

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
VILLAGE SUPER MARKET, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands) (Unaudited)

	January 27, 2018	July 29, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 89,738	$ 87,435
Merchandise inventories	42,346	41,852
Patronage dividend receivable	4,850	12,655
Notes receivable from Wakefern	—	22,118
Income taxes receivable	2,673	1,742
Other current assets	18,424	15,670
Total current assets	158,031	181,472
Property, equipment and fixtures, net	205,401	204,440
Notes receivable from Wakefern	45,731	22,562
Investment in Wakefern	27,093	27,093
Goodwill	12,057	12,057
Other assets	19,574	7,601
Total assets	$ 467,887	$ 455,225
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Capital and financing lease obligations	$ 714	$ 652
Notes payable to Wakefern	254	292
Accounts payable to Wakefern	63,332	59,556
Accounts payable and accrued expenses	16,401	17,279
Accrued wages and benefits	16,620	17,810
Income taxes payable	822	604
Total current liabilities	98,143	96,193
Long-term debt		
Capital and financing lease obligations	42,167	42,532
Notes payable to Wakefern	6	114
Notes payable related to New Markets Tax Credit	6,563	—
Total long-term debt	48,736	42,646
Pension liabilities	14,431	15,194
Other liabilities	12,393	14,372
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 10,569 shares at January 27, 2018 and 10,562 shares at July 29, 2017	59,573	57,852
Class B common stock, no par value: Authorized 20,000 shares; issued and outstanding 4,304 shares at January 27, 2018 and July 29, 2017	699	699
Retained earnings	250,397	244,308
Accumulated other comprehensive loss	(7,220)	(7,406)
Less treasury stock, Class A, at cost: 504 shares at January 27, 2018 and 477 shares at July 29, 2017	(9,265)	(8,633)
Total shareholders' equity	294,184	286,820
Total liabilities and shareholders' equity	$467,887	$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		26 Weeks Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales	$417,382	$412,215	$803,856	$801,907
Cost of sales	305,097	300,977	587,691	586,021
Gross profit	112,285	111,238	216,165	215,886
Operating and administrative expense	96,066	94,393	188,358	185,524
Depreciation and amortization	6,386	6,233	12,621	12,296
Operating income	9,833	10,612	15,186	18,066
Interest expense	(1,102)	(1,114)	(2,207)	(2,230)
Interest income	864	648	1,764	1,335
Income before income taxes	9,595	10,146	14,743	17,171
Income taxes	84	4,154	2,215	7,070
Net income	$9,511	$5,992	$12,528	$10,101
Net income per share:				
Class A common stock:				
Basic	$0.74	$0.47	$0.97	$0.80
Diluted	$0.66	$0.42	$0.87	$0.71
Class B common stock:				
Basic	$0.48	$0.31	$0.63	$0.52
Diluted	$0.48	$0.31	$0.63	$0.52

See accompanying Notes to Consolidated Financial Statements.

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

	13 Weeks Ended		26 Weeks Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net income	$9,511	$ 5,992	$12,528	$ 10,101
Other comprehensive income:				
Amortization of pension actuarial loss, net of tax (1)	102	224	186	491
Pension remeasurement, net of tax (2)	—	372	—	372
Comprehensive income	$9,613	$ 6,588	$12,714	$ 10,964

(1) Amounts are net of tax of $41 and $154 for the 13 weeks ended January 27, 2018 and January 28, 2017, respectively, and $98 and $264 for the 26 weeks ended January 27, 2018 and January 28, 2017, respectively. All amounts are reclassified from accumulated other comprehensive loss to operating and administrative expense.
(2) Amount is net of tax of $257.

See accompanying Notes to Consolidated Financial Statements.

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

	26 Weeks Ended	
	January 27, 2018	January 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,528	$ 10,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,621	12,296
Non-cash share-based compensation	1,721	1,484
Deferred taxes	(2,221)	(90)
Changes in assets and liabilities:		
Merchandise inventories	(494)	(1,420)
Patronage dividend receivable	7,805	7,907
Accounts payable to Wakefern	3,776	1,001
Accounts payable and accrued expenses	(1,692)	(1,712)
Accrued wages and benefits	(1,190)	(664)
Income taxes receivable / payable	(713)	(11,502)
Other assets and liabilities	(3,717)	(2,255)
Net cash provided by operating activities	28,424	15,146
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(12,731)	(13,013)
Proceeds from the sale of assets	16	—
Investment in notes receivable from Wakefern	(23,223)	(927)
Maturity of notes receivable from Wakefern	22,172	—
Investment in notes receivable related to New Markets Tax Credit financing	(4,835)	—
Net cash used in investing activities	(18,601)	(13,940)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	812
Excess tax benefit related to share-based compensation	—	83
Proceeds from New Markets Tax Credit financing	6,860	—
Debt Issuance Costs	(297)	—
Principal payments of long-term debt	(449)	(1,043)
Dividends	(6,439)	(6,330)
Treasury stock purchases	(632)	—
Net cash used in financing activities	(957)	(6,478)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	8,866	(5,272)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	87,435	88,379
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	$ 96,301	$ 83,107
SUPPLEMENTAL DISCLOSURES OF CASH PAYMENTS MADE FOR:		

Interest	$ 2,207	$ 2,230
Income taxes	$ 5,140	$ 18,559

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 January 27, 2018 and the consolidated statements of operations, comprehensive income and cash flows for the 13 and 26 week periods ended January 27, 2018 and January 28, 2017 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 January 27, 2018 are not necessarily indicative of the results to be expected for the full year.

2. MERCHANDISE INVENTORIES

At both January 27, 2018 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 January 27, 2018 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		26 Weeks Ended	
	January 27, 2018		January 27, 2018	
	Class A	Class B	Class A	Class B
Numerator:				
Net income allocated, basic	$7,174	$2,065	$9,452	$2,721
Conversion of Class B to Class A shares	2,065	—	2,721	—
Effect of share-based compensation on allocated net income	—	—	—	—
Net income allocated, diluted	$9,239	$2,065	$12,173	$2,721
Denominator:				
Weighted average shares outstanding, basic	9,714	4,304	9,718	4,304
Conversion of Class B to Class A shares	4,304	—	4,304	—
Dilutive effect of share-based compensation	—	—	—	—
Weighted average shares outstanding, diluted	14,018	4,304	14,022	4,304

	13 Weeks Ended		26 Weeks Ended	
	January 28, 2017		January 28, 2017	
	Class A	Class B	Class A	Class B
Numerator:				
Net income allocated, basic	$4,548	$1,327	$7,664	$2,239
Conversion of Class B to Class A shares	1,327	—	2,239	—
Effect of share-based compensation on allocated net income	6	(3)	8	(3)
Net income allocated, diluted	$5,881	$1,324	$9,911	$2,236
Denominator:				
Weighted average shares outstanding, basic	9,613	4,319	9,603	4,319
Conversion of Class B to Class A shares	4,319	—	4,319	—
Dilutive effect of share-based compensation	52	—	50	—
Weighted average shares outstanding, diluted	13,984	4,319	13,972	4,319

Outstanding stock options to purchase Class A shares of 384 and 52 were excluded from the calculation of diluted net income per share at January 27, 2018 and January 28, 2017, respectively, as a result of their anti-dilutive effect. In addition, 369 and 246 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 January 27, 2018 and January 28, 2017, 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		26 Weeks Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Service cost	$65	$ 116	$130	$ 255
Interest cost on projected benefit obligations	629	604	1,258	1,209
Expected return on plan assets	(820)	(973)	(1,640)	(1,946)
Amortization of net losses	142	378	284	755
Net periodic pension cost	$16	$ 125	$32	$ 273

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 January 27, 2018, 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 26 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 January 27, 2018 and July 29, 2017 are $69,619 and $60,037, respectively, of demand deposits invested at Wakefern at overnight money market rates.

6. DEBT

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 January 27, 2018 or July 29, 2017 under the superseded facility.

On December 29, 2017, the Company entered into a financing transaction under the New Markets Tax Credit program, see note 8 to the unaudited consolidated financial statements for further discussion.

7. INCOME TAXES

On December 22, 2017 the Tax Cuts and Jobs Act (the “Tax Act”) was enacted by the U.S. Government. The Tax Act made significant changes to the U.S. tax code that will affect the Company's fiscal year ending July 28, 2018, including, but not limited to, reducing the U.S. federal corporate tax rate from 35.0%% to 21.0%% effective January 1, 2018, and introducing bonus depreciation that will allow for full expensing of qualified property.

As the Company’s fiscal year ends on July 28, 2018, the Company’s U.S. federal corporate statutory income tax rate will be subject to a full year blended tax rate of 26.9%% for fiscal 2018, and 21.0%% for subsequent fiscal years. As a result of the decrease in the U.S. federal corporate statutory rate, deferred tax balances were remeasured based on the rates at which they are expected to reverse in the future. In the 26 weeks ended January 27, 2018, a benefit of $2,726 was recognized related to the remeasurement of the Company’s deferred tax balances, which is included in Income taxes on the consolidated statements of operations.

On December 22, 2017, the Securities Exchange Commission ("SEC") issued guidance under Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," allowing taxpayers to record provisional amounts for reasonable estimates when they do not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete their accounting for certain income tax effects of the Tax Act. The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the related tax impacts. The Company has completed recording the impacts of the change in tax rate. Estimates on the other impacts of the Tax Act were based on information currently available. The final impacts of the Tax Act may differ from the Company’s estimates due to changes in interpretations of the Tax Act or further legislation related to the Tax Act. Any changes could affect the measurement of deferred tax balances or potentially give rise to new deferred tax amounts.

8. NEW MARKETS TAX CREDIT

2017 New Markets Tax Credit

On December 29, 2017, the Company entered into a financing transaction with Wells Fargo Community Investment Holdings, LLC (“Wells Fargo”) under a qualified New Markets Tax Credit (“NMTC”) program related to the construction of a new store in the Bronx, New York. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments.

In connection with the financing, the Company loaned $4,835 to VSM Investment Fund, LLC (the "Investment Fund") at an interest rate of 1.403% per year and with a maturity date of December 31, 2044. Repayments on the loan commence in March 2025. Wells Fargo contributed $2,375 to the Investment Fund and, by virtue of such contribution, is entitled to substantially all of the tax benefits derived from the NMTC. The Investment Fund is a wholly owned subsidiary of Wells Fargo. The loan to the Investment Fund is recorded in Other assets in the consolidated balance sheets.

The Investment Fund then contributed the proceeds to a CDE, which, in turn, loaned combined funds of $6,563, net of debt issuance costs, to Village Super Market of NY, LLC, a wholly-owned subsidiary of the Company, at an interest rate of 1.000% per year with a maturity date of December 31, 2051. These loans are secured by the leasehold improvements and equipment related to the construction of the Bronx store. Repayment of the loans commences in

March 2025. The proceeds of the loans from the CDE will be used to partially fund the construction of the Bronx store. The Notes payable related to New Markets Tax Credit, net of debt issuance costs, are recorded in Long-term debt in the consolidated balance sheets.

The NMTC is subject to 100% recapture for a period of seven years. The Company is required to be in compliance with various regulations and contractual provisions that apply to the New Markets Tax Credit arrangement. Noncompliance could result in Wells Fargo's projected tax benefits not being realized and, therefore, require the Company to indemnify Wells Fargo for any loss or recapture of NMTCs. The Company does not anticipate any credit recapture will be required in connection with this financing arrangement. The transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase Wells Fargo's interest in the Investment Fund. The value attributed to the put/call is de minimis. We believe that Wells Fargo will exercise the put option in December 2024, at the end of the recapture period, that will result in a net benefit to the Company of $1,728. The Company is recognizing the net benefit over the seven-year compliance period.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, "Restricted Cash," which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Accordingly, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. The Company early-adopted ASU No. 2016-18 during the second quarter of fiscal 2018 and applied its provisions retrospectively. Other than the change in presentation within the consolidated statement of cash flows, the adoption of ASU No. 2016-18 did not have an impact on the Company's consolidated financial statements. Included in Other assets at January 27, 2018 is $6,563 of cash and cash equivalents related to the NMTC financing transaction that are restricted as to withdrawal and designated for expenditure in the construction of noncurrent assets in the Bronx store. There were no restricted cash or cash equivalents at July 29, 2017.

9. 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.

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		26 Weeks Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales	100.00 %	100.00 %	100.00 %	100.00 %
Cost of sales	73.10	73.01	73.11	73.08
Gross profit	26.90	26.99	26.89	26.92
Operating and administrative expense	23.02	22.90	23.43	23.14
Depreciation and amortization	1.53	1.52	1.57	1.53
Operating income	2.35	2.57	1.89	2.25
Interest expense	(0.26)	(0.27)	(0.27)	(0.28)
Interest income	0.21	0.16	0.22	0.17
Income before taxes	2.30	2.46	1.84	2.14
Income taxes	0.02	1.01	0.28	0.88
Net income	2.28 %	1.45 %	1.56 %	1.26 %

Sales. Sales were $417,382 in the second quarter of fiscal 2018, an increase of 1.3% compared to the second quarter of the prior year. Same store sales increased due to sales growth in recently remodeled and expanded stores in Chester and Stirling, inflation and increased promotional spending. These increases were partially offset by two competitor store openings. The Company expects same store sales in fiscal 2018 to range from a 0.5% decrease to a 0.5% 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.

Sales were $803,856 in the six-month period of fiscal 2018, an increase of 0.2% from the six-month period of the prior year. Same store sales increased 0.2% due primarily to sales growth in recently remodeled and expanded stores in Chester and Stirling, inflation and increased promotional spending. These increases were partially offset by 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 moderate inflation during the second quarter and six-month period of fiscal 2018 across all selling departments other than pharmacy, which continued to experience deflation.

Gross Profit. Gross profit as a percentage of sales decreased .09% in the second quarter of fiscal 2018 compared to the second quarter of the prior year primarily due to decreased patronage dividends from Wakefern (.07%), increased promotional spending (.05%) and decreased departmental gross margin percentages (.11%) partially offset by a favorable change in product mix (.12%).

Gross profit as a percentage of sales decreased .03% in the six-month period of fiscal 2018 compared to the six-month period of the prior year primarily due to decreased patronage dividends from Wakefern (.04%) and increased promotional spending (.09%) partially offset by a favorable change in product mix (.12%).

Operating and Administrative Expense. Operating and administrative expense as a percentage of sales increased .12% in the second quarter of fiscal 2018 compared to the second quarter of the prior year due primarily to payroll investments in service departments, training and other initiatives (.21%).

Operating and administrative expense as a percentage of sales increased .29% in the six-month period of fiscal 2018 compared to the six-month period of the prior year primarily due primarily to payroll investments in service departments, training and other initiatives (.32%).

Depreciation and Amortization. Depreciation and amortization expense increased in the second quarter and six-month period 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 second quarter and six-month period of fiscal 2018 was flat compared to the corresponding period of the prior year.

Interest Income. Interest income increased in the second quarter and six-month period of fiscal 2018 compared to the corresponding period of the prior year due primarily to higher amounts invested and higher interest rates earned on notes receivable from Wakefern.

Income Taxes. The effective income tax rate was .9% in the second quarter of fiscal 2018 compared to 40.9% in the second quarter of the prior year. The effective income tax rate was 15.0% in the six-month period of fiscal 2018 compared to 41.2% in the six-month period of the prior year.

The effective tax rate was impacted by the Tax Cuts and Jobs Act (the "Tax Act") enacted on December 22, 2017. The Tax Act makes significant changes to the U.S tax code that will affect our fiscal year ended July 28, 2018, including, but not limited to, reducing the U.S. federal statutory tax rate from 35% to 21% effective January 1, 2018 and bonus depreciation that will allow for full expensing of qualified property.

For the fiscal year ended July 28, 2018 the Company will have a blended federal corporate tax rate of 26.9% based on the effective date of the tax rate reduction. As a result of the decrease in the federal rate, the Company recognized a decrease in its net deferred tax liabilities of $2,726 in the second quarter of fiscal 2018, with a corresponding reduction to deferred income tax expense. Excluding the impact of the adjustment to deferred tax expense, the effective income tax rates were 29.3% and 33.5% in the second quarter and six-month period of fiscal 2018, respectively.

Net Income. Net income was $9,511 in the second quarter of fiscal 2018 compared to $5,992 in the second quarter of the prior year. The second quarter of fiscal 2018 includes a $2,726 non-cash reduction in deferred tax expense as a result of the Tax Act. Excluding this item from the second quarter of fiscal 2018, net income increased 13% in the second quarter of fiscal 2018 compared to the prior year primarily due to the favorable impact of a reduction in the fiscal 2018 estimated effective tax rate to 33.5% as a result of the Tax Act.

Net income was $12,528 in the six-month period of fiscal 2018 compared to $10,101 in the six-month period of the prior year. Fiscal 2018 includes a $2,726 non-cash reduction in deferred tax expense as a result of the Tax Act. Excluding this item, net income decreased 3% in the six-month period of fiscal 2018 compared to the prior year primarily due to higher operating and administrative expenses partially offset by the favorable impact of a reduction in the fiscal 2018 estimated effective tax rate to 33.5% as a result of the Tax Act.

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 January 27, 2018, 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 provided by operating activities was $28,424 in the six-month period of fiscal 2018 compared to $15,146 in the corresponding period of the prior year. The increase in net cash provided by 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, including Other assets and Other liabilities, increased net cash provided by operating activities in fiscal 2018 by $3,775 and decreased net cash provided by operating activities by $8,645 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 six-month period of fiscal 2018, Village used cash to fund capital expenditures of $12,731, dividends of $6,439 and invested an additional $1,051 in notes receivable from Wakefern, net of proceeds received on matured notes. Capital expenditures primarily include costs associated with several smaller remodels.

At January 27, 2018, the Company had $45,731 in variable rate notes receivable due from Wakefern that earn interest at the prime rate plus $1.25% with $23,265 that mature on February 15, 2019 and $22,466 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 revised its budgeted capital expenditures downward from prior estimates to approximately $30,000 for fiscal 2018 due to delays in the timing of certain projects. Planned expenditures include construction of a new store in the Bronx, New York, 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 January 27, 2018, operating cash flow generated in fiscal 2018 and funding through the New Markets Tax Credit program as described in note 8 to the unaudited consolidated financial statements.

Working capital was $59,888 at January 27, 2018 compared to $85,279 at July 29, 2017. Working capital ratios at the same dates were 1.61 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 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 January 27, 2018 or July 29, 2017 under the new or superseded facility, respectively.

There have been no other substantial changes as of January 27, 2018 to the contractual obligations and commitments discussed in the Company's Annual Report on Form 10-K for the year ended July 29, 2017.

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 0.5% to an increase of 0.5% in fiscal 2018. We expect sales trends to be negatively impacted by several local competitor store openings.
- We have revised budgeted capital expenditures downward from prior estimates to approximately $30,000 for fiscal 2018 due to delays in the timing of certain projects. Planned expenditures include construction of a new store in the Bronx, New York, 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 33.0% - 34.0%.
- 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.

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 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.

In February 2018, the FASB issued ASU No. 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which will allow a reclassification from accumulated other comprehensive income to retained earnings for the tax effects resulting from the Tax Act that are stranded in accumulated other comprehensive income. This standard also requires certain disclosures about stranded tax effects. This ASU, however, does not change the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations. The new guidance is effective for the first interim and annual periods beginning after December 15, 2018, with early adoption permitted. It must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company is currently evaluating the effects of adoption of this standard on its consolidated financial statements and related disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At January 27, 2018, the Company had demand deposits of $69,619 at Wakefern earning interest at overnight money market rates, which are exposed to the impact of interest rate changes.

At January 27, 2018, the Company had $45,731 in notes receivable due from Wakefern that earn interest at the prime rate plus $1.25% with $23,265 that mature on February 15, 2019 and $22,466 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 January 27, 2018 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 second 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 Plan or Programs
October 29, 2017 to November 25, 2017	—	$—	—	$2,008,972
November 26, 2017 to December 23, 2017	8,893	$23.02	8,893	$1,804,255
December 24, 2017 to January 27, 2018	11,845	$23.02	11,845	$1,531,583
Total	20,738	$23.02	20,738	$1,531,583

(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

101 INS XBRL Instance

101 SCH XBRL Schema

101 CAL XBRL Calculation

101 DEF	XBRL Definition
101 LAB	XBRL Label
101 PRE	XBRL Presentation

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: March 8, 2018	/s/ Robert P. Sumas Robert P. Sumas (Chief Executive Officer)
Dated: March 8, 2018	/s/ John Van Orden John Van Orden (Chief Financial Officer)