VILLAGE SUPER MARKET INC
Form 10-Q
March 03, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended: January 23, 2010

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 of other jurisdiction of incorporation or organization)	22-1576170 (I. R. S. Employer Identification No.)
733 MOUNTAIN AVENUE, SPRINGFIELD, NEW JERSEY (Address of principal executive offices)	07081 (Zip Code)

(973) 467-2200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. S 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	S
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company	

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YesS No

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

	March 2, 2010
Class A Common Stock, No Par Value	6,999,194 Shares
Class B Common Stock, No Par Value	6,376,304 Shares

VILLAGE SUPER MARKET, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	January 23, 2010	July 25, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 75,147	$54,966
Merchandise inventories	35,694	34,273
Patronage dividend receivable	3,496	7,446
Note receivable from Wakefern	----	15,684
Other current assets	14,599	12,189
Total current assets	128,936	124,558
Note receivable from Wakefern	17,588	16,983
Property, equipment and fixtures, net	165,818	162,261
Investment in Wakefern	20,263	19,673
Goodwill	10,605	10,605
Other assets	4,683	4,730
	$ 347,893	$338,810
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	$ ----	$4,555
Current portion of notes payable to Wakefern	298	269
Accounts payable to Wakefern	54,868	53,487
Accounts payable and accrued expenses	25,869	26,039
Income taxes payable	13,174	9,352
Total current liabilities	94,209	93,702
Long-term debt	30,732	30,752
Notes payable to Wakefern	1,657	1,829
Other liabilities	25,701	25,129
Commitments and contingencies		
Shareholders' equity		
Class A common stock - no par value, issued 7,541 shares at January 23, 2010 and 7,538 shares at July 25, 2009	30,676	28,982
Class B common stock - no par value, 6,376 shares issued and outstanding	1,035	1,035
Retained earnings	177,270	171,229
Accumulated other comprehensive loss	(10,149)	(10,535)
Less cost of Class A treasury shares (542 at January 23, 2010 and 555 at July 25, 2009)	(3,238)	(3,313)
Total shareholders' equity	195,594	187,398

	$ 347,893	$338,810

See accompanying Notes to Consolidated Condensed Statements.

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

	13 Wks. Ended Jan. 23, 2010	13 Wks. Ended Jan. 24, 2009	26 Wks. Ended Jan. 23, 2010	26 Wks. Ended Jan. 24, 2009
Sales	$ 315,309	$ 312,714	$ 618,093	$ 603,698
Cost of sales	229,153	227,653	451,369	439,165
Gross profit	86,156	85,061	166,724	164,533
Operating and administrative expense	70,166	67,488	138,543	132,260
Depreciation and amortization	4,063	3,705	8,033	7,322
Operating income	11,927	13,868	20,148	24,951
Interest expense	(905)	(708)	(1,853)	(1,434)
Interest income	490	489	986	1,057
Income before income taxes	11,512	13,649	19,281	24,574
Income taxes	4,775	5,693	8,002	10,250
Net income	$ 6,737	$ 7,956	$ 11,279	$ 14,324
Net income per share:				
Class A Common Stock:				
Basic	$ .61	$ .72	$ 1.01	$ 1.30
Diluted	$ .50	$ .59	$ .83	$ 1.07
Class B Common Stock:				
Basic	$ .39	$ .47	$ .66	$ .84
Diluted	$ .39	$ .46	$ .65	$ .84

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	26 Weeks Ended January 23, 2010	26 Weeks Ended January 24, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,279	$ 14,324
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,033	7,322
Deferred taxes	(1,400)	350
Provision to value inventories at LIFO	150	600
Non-cash share-based compensation	1,555	1,274
Changes in assets and liabilities:		
Merchandise inventories	(1,571)	(2,662)
Patronage dividend receivable	3,950	3,853
Accounts payable to Wakefern	1,381	2,017
Accounts payable and accrued expenses	(170)	821
Income taxes payable	3,822	2,498
Other assets and liabilities	(7)	(1,040)
Net cash provided by operating activities	27,022	29,357
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,589)	(13,170)
Maturity of (investment in) notes receivable from Wakefern	15,079	(818)
Net cash provided by (used in) investing activities	3,490	(13,988)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	122	339
Excess tax benefit related to share-based compensation	92	217
Principal payments of long-term debt and notes payable	(5,307)	(5,218)
Dividends	(5,238)	(3,863)
Net cash used in financing activities	(10,331)	(8,525)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,181	6,844
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	54,966	47,889
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 75,147	$ 54,733
SUPPLEMENTAL DISCLOSURE OF CASH PAYMENTS MADE FOR:		
Interest	$ 1,964	$ 1,360
Income taxes	$ 5,487	$ 8,939
NON-CASH SUPPLEMENTAL DISCLOSURES:		
Investment in Wakefern	$ 590	$ 657
Financing lease obligation	$ ----	$ 5,700

See accompanying Notes to Consolidated Condensed Financial Statements.

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

1. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of normal and recurring accruals) necessary to present fairly the consolidated financial position as of January 23, 2010 and the consolidated results of operations and cash flows for the thirteen and twenty-six week periods ended January 23, 2010 and January 24, 2009 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, 2009 Village Super Market, Inc. Annual Report on Form 10-K, which should be read in conjunction with these financial statements.

2. The results of operations for the periods ended January 23, 2010 are not necessarily indicative of the results to be expected for the full fiscal year.

3. At both January 23, 2010 and July 25, 2009, approximately 67% 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 $14,397 and $14,247 higher than reported at January 23, 2010 and July 25, 2009, respectively.

4. The Company computes net income per share using the two-class method, 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, our Class A common stock is assumed to receive a 54% greater participation in undistributed earnings than our Class B common stock, in accordance with the classes respective dividend rights.

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 shares of 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.

On July 26, 2009, the Company adopted a new accounting standard requiring unvested share-based payment awards that contain nonforfeitable rights to dividends be treated as participating securities and therefore included in computing net income per share using the two-class method. All prior period net income per share data has been adjusted to reflect the new standard. Net income per share amounts for the prior year periods as previously reported were as follows:

	13 Weeks Ended January 24, 2009		26 Weeks Ended January 24, 2009	
	Class A	Class B	Class A	Class B
Basic	$ .74	$ .48	$ 1.33	$ .86
Diluted	$ .60	$ .47	$ 1.08	$ .85

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

	13 Weeks Ended January 23, 2010		26 Weeks Ended January 23, 2010	
	Class A	Class B	Class A	Class B
Numerator:				
Net income allocated, basic	$ 4,072	$ 2,506	$ 6,811	$ 4,199
Conversion of Class B to Class A shares	2,506	----	4,199	----
Effect of share-based compensation on allocated net income	17	(17)	25	(27)
Net income allocated, diluted	$ 6,595	$ 2,489	$ 11,035	$ 4,172
Denominator:				
Weighted average shares outstanding, basic	6,727	6,376	6,723	6,376
Conversion of Class B to Class A shares	6,376	---	6,376	---
Dilutive effect of share-based compensation	132	-----	135	---
Weighted average shares outstanding, diluted	13,235	_ 6,376	13,234	6,376

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	13 Weeks Ended		26 Weeks Ended	
	January 24, 2009			
	Class A	Class B	Class A	Class B
Numerator:				
Net income allocated, basic	$ 4,790	$ 2,985	$ 8,619	$ 5,378
Conversion of Class B to Class A shares	2,985	---	5,378	---
Effect of share-based compensation on allocated net income	24	(31)	43	(53)
Net income allocated, diluted	$ 7,799	$ 2,954	$ 14,040	$ 5,325
Denominator:				
Weighted average shares outstanding, basic	6,642	6,376	6,636	6,376
Conversion of Class B to Class A shares	6,376	---	6,376	---
Dilutive effect of share-based compensation	155	----	152	---
Weighted average shares outstanding, diluted	13,173	6,376	13,164	6,376

Outstanding stock options to purchase Class A shares of 30 and 404 were excluded from the calculation of diluted net income per share at January 23, 2010 and January 24, 2009, respectively, as a result of their anti-dilutive effect. In addition, 256 and 251 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 23, 2010 and January 24, 2009, respectively, due to their anti-dilutive effect.

5. Comprehensive income was $6,930 and $11,665 for the thirteen and twenty-six week periods ended January 23, 2010, and $8,037 and $14,486 for the thirteen and twenty-six week periods ended January 24, 2009. Comprehensive income consists of net income and amortization of net losses on benefit plans, net of income taxes.

6. 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	
	1/23/10	1/24/09	1/23/10	1/24/09
Service cost	$ 572	$ 603	$ 1,144	$ 1,206
Interest cost on projected benefit obligations	583	520	1,166	1,040
Expected return on plan assets	(426)	(434)	(852)	(868)
Amortization of gains and losses	320	133	640	266
Amortization of prior service costs	2	2	4	4
Net periodic pension cost	$ 1,051	$ 824	$ 2,102	$ 1,648

As of January 23, 2010, the Company has contributed $41 to its pension plans in fiscal 2010. The Company expects to contribute an additional $2,959 during the remainder of fiscal 2010 to fund its pension plans.

7. Effective July 26, 2009, the Company adopted a new accounting standard defining fair value and establishing a framework for measurement of fair value for non-financial assets and liabilities that are not remeasured at fair value on a recurring basis. This includes fair value calculated in impairment assessments of goodwill and other long-lived assets. The adoption had no impact on the Company’s consolidated financial position or results of operations.

8. The Company’s leasehold interest in the former Washington store had been the subject of litigation related to the lease-end date, rent amounts and other matters. On July 30, 2009, the Company settled all litigation with the landlord and purchased the land and building for $3,100. The Company recorded the purchase of land and building at its appraised value of $1,600. In fiscal 2009, the Company recorded a pre-tax charge for the balance of $1,500 related to the litigation. In addition to settling the litigation, the purchase of the former Washington store property eliminated any potential time period between the closing of the former Washington store and the opening of the replacement store.

On April 22, 2009, a Court formally invalidated the developer’s approval for our Washington replacement store. In September 2009, the Planning Board began consideration of a revised site plan. The Planning Board approved this revised site plan on November 11, 2009. This approval was appealed in December. The Company restarted construction on November 25, 2009 and the store opened on February 21, 2010. The Company’s investment in construction and equipment is $14,710 at January 23, 2010. In the event the Planning Board approval is overturned on appeal, the Company may record an impairment charge for this investment which could be material to the Company’s consolidated financial position and results of operations.

ITEM 2.

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

(Dollars in Thousands)

OVERVIEW

The Company operates a chain of 26 ShopRite supermarkets in New Jersey and northeastern Pennsylvania. Village is the second largest member of Wakefern Food Corporation (“Wakefern”), the nation’s largest retailer-owned food cooperative and owner of the ShopRite name. As further described in the Company’s Form 10-K, this ownership interest in Wakefern provides Village many of the economies of scale in purchasing, distribution, advanced retail technology and advertising associated with larger chains.

The Company’s stores, six of which are owned, average 56,000 total square feet. Larger store sizes enable Village to offer the specialty departments that customers desire for one-stop shopping, including pharmacies, natural and organic departments, ethnic and international foods, and home meal replacement.

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

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; and hourly labor rates.

During fiscal 2009 and the first two quarters of fiscal 2010, the supermarket industry was impacted by changing consumer behavior due to the weaker economy and increased unemployment. Consumers are increasingly cooking meals at home, trading down to lower priced items, including private label, and concentrating their buying on sale items. These trends amplified in the last nine months. The deflationary trend in food prices that began during the second half of fiscal 2009 continued in the first two quarters of fiscal 2010. As a result of these trends, same store sales decreased 1.7% in the second quarter of fiscal 2010 as the average transaction size declined. This compares to a same store sales increase in the second quarter of the prior year of 5.9%. However, customer counts increased slightly in the second quarter of fiscal 2010. Management believes that generally Village has benefited from these trends compared to its competitors due to ShopRite’s position as a price leader in New Jersey.

RESULTS OF OPERATIONS

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

	13 Weeks Ended		26 Weeks Ended	
	1/23/10	1/24/09	1/23/10	1/24/09
Sales	100.00%	100.00%	100.00%	100.00%
Cost of sales	72.68	72.80	73.03	72.75
Gross profit	27.32	27.20	26.97	27.25
Operating and administrative expense	22.25	21.58	22.41	21.91
Depreciation and amortization	1.29	1.18	1.30	1.21
Operating income	3.78	4.44	3.26	4.13
Interest expense	(.29)	(.23)	(.30)	(.24)
Interest income	.16	.15	.16	.18
Income before taxes	3.65	4.36	3.12	4.07
Income taxes	1.51	1.82	1.30	1.70
Net income	2.14%	2.54%	1.82%	2.37%

Sales. Sales were $315,309 in the second quarter of fiscal 2010, an increase of .8% from the second quarter of the prior year. Sales increased due to the opening of the Marmora, New Jersey store on May 31, 2009. Same store sales decreased 1.7%. This compares to a same store sales increase in the second quarter of the prior year of 5.9%. Same store sales decreased due to cannibalization from the opening of the Marmora store, reduced sales in three stores due to competitive store openings and a decline in average transaction size. These declines were partially offset by a slight increase in transaction counts. The Company believes that the decline in transaction size is due to food price deflation and changing consumer behavior due to economic weakness, which has resulted in increased coupon usage, sale item penetration and trading down. The Company expects same store sales for all of fiscal 2010 to range from -.5% to +1.0%. New stores and replacement stores are included in same stores sales in the quarter after the store has been in operation for four full quarters. Store renovations are included in same stores sales immediately.

Sales were $618,093 in the six-month period of fiscal 2010, an increase of 2.4% from the prior year. Sales increased due to the opening of the Marmora store. Same stores sales decreased .6% due to cannibalization from the opening of the Marmora store and a decline in average transaction size, partially offset by increased transaction count.

Gross profit. Gross profit as a percentage of sales increased .12% in the second quarter of fiscal 2010 compared to the second quarter of the prior year primarily due to higher patronage dividends (.30%) and lower LIFO charges (.10%). These improvements were partially offset by increased warehouse assessment charges from Wakefern (.12%) and higher promotional spending (.09%). Gross profit was favorably impacted by receipt of patronage dividends from Wakefern greater than estimated amounts accrued in both the second quarter of fiscal 2010 (.38%) and 2009 (.26%). In addition, accruals for patronage dividends were increased .18% in the current fiscal quarter.

Gross profit as a percentage of sales decreased .28% in the six-month period of fiscal 2010 compared to the corresponding period of the prior year primarily due to higher promotional spending (.20%), decreased departmental gross margin percentage (.21%) and changed product mix (.07%). These decreases were partially offset by higher patronage dividends (.17%) and lower LIFO charges (.08%).

Operating and administrative expense. Operating and administrative expense increased .67% as a percentage of sales in the second quarter of fiscal 2010 compared to the second quarter of the prior year primarily due to increased fringe benefit cost (.41%), payroll (.21%) and occupancy costs (.16%). These increases were partially offset by recovery of prior year's credit card fees through litigation settlement (.06%). Fringe benefit costs increased primarily due to increased medical, worker's compensation insurance and pension costs. Payroll costs increased as a percentage of sales due to the loss of operating leverage from the 1.7% same store sale decline in the current year. Occupancy costs increased primarily due to increased snow removal, real estate taxes and insurance costs.

Operating and administrative expense increased .50% as a percentage of sales in the six-month period of fiscal 2010 compared to the corresponding period of the prior year primarily due to increased fringe benefit costs (.37%), payroll (.13%) and occupancy costs (.08%). Fringe benefit costs increased primarily due to increased medical, worker's compensation insurance and pension costs. Payroll increased as a percentage of sales due to the loss of operating leverage from the .6% same store sales decline in the current year. Occupancy costs increased due to higher real estate taxes, snow removal and insurance costs.

Depreciation and amortization. Depreciation and amortization expense increased in the second quarter and six-month periods of fiscal 2010 compared to the corresponding periods of the prior year due to depreciation related to fixed asset additions, including the new Marmora store.

Interest expense. Interest expense increased in the second quarter and six-month periods of fiscal 2010 compared to the corresponding periods of the prior year due to interest on the Marmora store financing lease, partially offset by lower interest expense due to payments on loans.

Interest income. Interest income was similar in the second quarter and six-month periods of fiscal 2010 compared to the corresponding periods of the prior year as higher amounts invested were offset by lower interest rates received.

Income Taxes. The effective income tax rate was 41.5% in both the second quarter and six-month periods of fiscal 2010 compared to 41.7% in the corresponding periods of the prior year.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those accounting policies that management believes are important to the portrayal of the Company's financial condition and results of operations. These policies require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's critical accounting policies relating to the impairment of long-lived assets and goodwill, accounting for patronage dividends earned as a stockholder of Wakefern, accounting for pension plans, accounting for share-based compensation, and accounting for uncertain tax positions, are described in the Company's Annual Report on Form 10-K for the year ended July 25, 2009. As of January 23, 2010, there have been no changes to any of the critical accounting policies contained therein.

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

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $27,022 in the six-month period ended January 23, 2010 compared with $29,357 in the corresponding period of the prior year. This decrease is primarily attributable to lower net income in fiscal 2010.

During the first six months of fiscal 2010, Village used cash to fund capital expenditures of $11,589, debt payments of $5,307 and dividends of $5,238. Debt payments include the final installment of $4,286 on Village's unsecured Senior Notes.

Village has budgeted approximately $19 million for capital expenditures in fiscal 2010. Expenditures include the completion of the construction and equipment for the replacement store in Washington, New Jersey, which opened on February 21, 2010, installation of a solar energy system at the Garwood store, and several small remodels. The Company's primary sources of liquidity in fiscal 2010 are expected to be cash and cash equivalents on hand and operating cash flow generated in fiscal 2010.

Working capital was $34,727 at January 23, 2010 compared to $30,856 at July 25, 2009.   The working capital ratio was 1.4 to 1 at January 23, 2010 compared to 1.3 to 1 at July 25, 2009.   On December 8, 2009, a $15,822 note receivable from Wakefern matured and is currently invested in overnight deposits at 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.

There have been no substantial changes as of January 23, 2010 to the contractual obligations and commitments discussed on page 10 of the Company's Annual Report on Form 10-K for the year ended July 25, 2009, except for an additional $590 required investment in Wakefern common stock.

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: economic conditions; expected pension plan contributions; projected capital expenditures; cash flow requirements; and legal matters; and are indicated by words such as "will," 'expect," "should," 'intend," "anticipates," "belie and similar words or phrases. The Company cautions the reader that 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 -.5% to +1.0% in fiscal 2010.

- During fiscal 2009 and the first two quarters of fiscal 2010, the supermarket industry was impacted by changing consumer behavior due to the weaker economy and increased unemployment. Consumers are increasingly cooking meals at home, trading down to lower priced items, including private label, and concentrating their buying on sale items. These trends amplified in the last nine months. Same store sales decreased 1.7% in the second quarter of fiscal 2010 as customer counts increased slightly, but the average transaction size declined. Management expects these trends to continue for at least the next quarter. Management believes that generally Village has benefited from these trends compared to its competitors due to ShopRite's position as a price leader in New Jersey.

- We expect less retail price inflation in fiscal 2010 than in fiscal 2009 and fiscal 2008, with the first 9 months of fiscal 2010 being primarily deflationary.

- We have budgeted $19,000 for capital expenditures in fiscal 2010, which includes the completion of the Washington replacement store, which opened on February 21, 2010, installation of a solar energy system at the Garwood store, and several small remodels.

- 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 2010 to be 41-42%.

- We expect operating expenses will be affected by increased costs in certain areas, such as medical and pension costs, and credit card fees.

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

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

- The Company's stores are concentrated in New Jersey, with one store 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 rates, energy costs and unemployment rates 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 supplies, advertising, liability and property insurance, technology support and other store services. Further, Village receives patronage dividends and other product incentives from Wakefern. Any material change in Wakefern's method of operation or a termination or material modification of Village's relationship with Wakefern could have an adverse impact on the conduct of the Company's business and could involve additional expense for Village. The failure of any Wakefern member to fulfill its obligations to Wakefern or a member's insolvency or withdrawal from Wakefern could result in increased costs to the Company. Additionally, an adverse change in Wakefern's results of operations could have an adverse affect on Village's results of operations.

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

- Village could be adversely affected if consumers lose confidence in the safety and quality of the food supply chain. The real or perceived sale of contaminated food products by us could result in a loss of consumer confidence and product liability claims, which could have a material adverse effect on our sales and operations.

- We believe a number of the multi-employer plans to which we contribute are underfunded. As a result, we expect that contributions to these plans may increase.&#