

VILLAGE SUPER MARKET INC  
Form 10-K  
October 08, 2014

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UNITED STATES

SECURITIES & EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934.

For the fiscal year ended: July 26, 2014

COMMISSION FILE NUMBER: 0-33360

VILLAGE SUPER MARKET, INC.  
(Exact name of registrant as specified in its charter)

NEW JERSEY  
(State or other jurisdiction of incorporation or  
organization)

22-1576170  
(I. R. S. Employer Identification No.)

733 MOUNTAIN AVENUE, SPRINGFIELD, NEW  
JERSEY  
(Address of principal executive offices)

07081  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (973) 467-2200

Securities registered pursuant to Section 12(b) of the Act:

Class A common stock, no par value  
(Title of Class)

The NASDAQ Stock Market  
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

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post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§299.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check 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

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The aggregate market value of the Class A common stock of Village Super Market, Inc. held by non-affiliates was approximately \$172.8 million and the aggregate market value of the Class B common stock held by non-affiliates was approximately \$0.5 million based upon the closing price of the Class A shares on the NASDAQ on January 25, 2014, the last business day of the second fiscal quarter. There are no other classes of voting stock outstanding.

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

Class	Outstanding at October 3, 2014
Class A common stock, no par value	9,692,698 Shares
Class B common stock, no par value	4,360,998 Shares

#### DOCUMENTS INCORPORATED BY REFERENCE

Information contained in the 2014 definitive Proxy Statement to be filed with the Commission and delivered to security holders in connection with the Annual Meeting scheduled to be held on December 12, 2014 are incorporated by reference into this Form 10-K at Part II, Item 5 and Part III.

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## PART I

## ITEM I. BUSINESS

(All dollar amounts in this report are in thousands, except per square foot data).

## GENERAL

Village Super Market, Inc. (the “Company” or “Village”) was founded in 1937. Village operates a chain of 29 ShopRite supermarkets, eighteen of which are located in northern New Jersey, eight in southern New Jersey, two in Maryland and one in northeastern Pennsylvania. The Company is a member of Wakefern Food Corporation (“Wakefern”), the nation's largest retailer-owned food cooperative and owner of the ShopRite name. This relationship 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.

Village seeks to generate high sales volume by offering a wide variety of high quality products at consistently low prices with superior customer service. During fiscal 2014, sales per store were \$52,367 and sales per average square foot of selling space were \$1,153. The Company gives ongoing attention to the décor and format of its stores and tailors each store's product mix to the preferences of the local community. 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 also strengthens customer loyalty.

On April 30, 2014, Village opened a 59,000 sq. ft. store in Union, New Jersey that replaced our existing 40,000 sq. ft. store in Union. On November 6, 2013, Village opened a 77,000 sq. ft. store in Hanover Township, New Jersey that serves the greater Morristown area and replaced the 40,000 sq. ft. Morris Plains store.

On January 29, 2012, Village acquired the store fixtures, lease and other assets of the ShopRite in Old Bridge, New Jersey (40,000 sq. ft.) for \$3,250 plus inventory and other working capital for \$1,116. On July 7, 2011, Village acquired the store fixtures, leases and pharmacy lists of locations in Silver Spring (64,000 sq.ft.) and Timonium, Maryland (57,000 sq.ft.) for \$6,595 from SuperFresh. Village opened the Maryland stores as ShopRites on July 28, 2011 after remodeling.

Below is a summary of the range of store sizes at July 26, 2014:

Total Square Feet	Number of Stores
Greater than 60,000	14
50,001 to 60,000	8
40,000 to 50,000	5
Less than 40,000	2
Total	29

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. The greater Morristown and Union stores include the Village Food Garden concept previously introduced in our remodeled Livingston store. Village Food Garden features 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 thirteen 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 Live Right with ShopRite program. Our greater Morristown store offers customers expanded services including a culinary classroom, fitness studio and a learning and childcare center.

We have twelve 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](http://shoprite.com) or on their smart phones or tablets through the ShopRite app. Additionally, we have commenced a mobile shopping pilot program at one store that allows in-store shoppers to scan and express pay for their purchases via our smart phone app.

The following table shows the percentage of the Company's sales allocable to various product categories during each of the periods indicated:

Product Categories	2014		2013		2012	
Groceries	37.2	%	37.9	%	38.3	%
Dairy and Frozen	17.5		17.8		17.8	
Produce	11.8		11.5		11.3	
Meats	10.5		10.5		10.5	
Non-Foods	8.1		8.0		7.9	
Deli and prepared food	6.3		5.6		5.4	
Pharmacy	4.1		4.1		4.3	
Seafood	2.4		2.5		2.5	
Bakery	2.1		2.1		2.0	
	100	%	100	%	100	%

A variety of factors affect the profitability of each of the Company's stores, including local competitors, size, access and parking, lease terms, management supervision, and the strength of the ShopRite trademark in the local community. Village continually evaluates individual stores to determine if they should be closed, remodeled or replaced.

#### DEVELOPMENT AND EXPANSION

The Company has an ongoing program to upgrade and expand its supermarket chain. This program has included store remodels as well as the opening or acquisition of additional stores. When remodeling, Village has sought, whenever possible, to increase the amount of selling space in its stores.

Village has budgeted \$25 million for capital expenditures for fiscal 2015. Planned expenditures include three major remodels and several smaller remodels.

In fiscal 2014, Village completed the construction of a replacement store in Union, New Jersey, and a replacement store in Hanover Township, New Jersey that serves the greater Morristown area and replaced the Morris Plains, New Jersey store.

In fiscal 2013, Village began construction of a replacement store in Hanover Township, New Jersey and completed three major remodels.

In fiscal 2012, Village completed several smaller remodels and the installation of solar panels on one store. In addition, on January 29, 2012, Village acquired the store fixtures, lease and other assets of the ShopRite in Old Bridge, New Jersey.

In fiscal 2011, Village purchased the land for a replacement store and completed several small remodels. In addition, on July 7, 2011, Village acquired the store fixtures, leases and pharmacy lists of locations in Silver Spring and Timonium, Maryland.

Additional store remodels and sites for new stores are in various stages of development. Village will also consider additional acquisitions should appropriate opportunities arise.

WAKEFERN FOOD CORPORATION

The Company is the second largest member of Wakefern and owns 13.7% of Wakefern's outstanding stock as of July 26, 2014. Wakefern, which was organized in 1946, is the nation's largest retailer-owned food cooperative. Wakefern and its 49 shareholder members operate 321 supermarkets and other retail formats, including 89 stores operated by Wakefern. Only Wakefern and its members are entitled to use the ShopRite name and trademark, and to participate in ShopRite advertising and promotional programs.

The principal benefits to the Company from its relationship with Wakefern are the use of the ShopRite name and trademark, volume purchasing, ShopRite private label products, distribution and warehousing economies of scale, ShopRite advertising and promotional programs, including the ShopRite Price Plus card, and the development of advanced retail technology. The Company believes that the ShopRite name is widely recognized by its customers and is a factor in their decisions about where to shop. ShopRite private label products accounted for approximately 10.8% of sales in fiscal 2014.

Wakefern distributes as a "patronage dividend" to each of its stockholders, a share of substantially all of its earnings in proportion to the dollar volume of purchases by the stockholder from Wakefern during each fiscal year.

While Wakefern has a substantial professional staff, it operates as a member owned cooperative. Executives of most members make contributions of time to the business of Wakefern. Executives of the Company spend a significant amount of their time working on various Wakefern committees, which oversee and direct Wakefern purchasing, merchandising and other programs. James Sumas, the Company's Chief Executive Officer, is Vice Chairman of Wakefern, and a member of the Wakefern Board of Directors.

Most of the Company's advertising is developed and placed by Wakefern's professional advertising staff. Wakefern is responsible for all television, radio and major newspaper advertisements. Wakefern bills its members using various formulas which allocate advertising costs in accordance with the estimated proportional benefits to each member from such advertising. The Company also places Wakefern developed materials with local newspapers. In addition, Wakefern and its affiliates provide the Company with other services including liability and property insurance, supplies, certain equipment purchasing, coupon processing, certain financial accounting applications, and retail technology support, including shoprite.com and the ShopRite smart phone app.

Wakefern operates warehouses and distribution facilities in Elizabeth, Keasbey, Whitehouse, Dayton, Newark and Jamesburg, New Jersey and Gouldsboro and Breinigsville, Pennsylvania. The Company and all other members of Wakefern are parties to the Wakefern Stockholder's Agreement which provides for certain commitments by, and restrictions on, all shareholders of Wakefern. This agreement extends until ten years from the date that stockholders representing 75% of Wakefern sales notify Wakefern that those stockholders request the Wakefern Stockholder Agreement be terminated. Each member is obligated to purchase from Wakefern a minimum of 85% of its requirements for products offered by Wakefern. If this purchase obligation is not met, the member is required to pay Wakefern's profit contribution shortfall attributable to this failure. The Company fulfilled this obligation in fiscal 2014, 2013 and 2012. This agreement also requires that in the event of unapproved changes in control of the Company or a sale of the Company or of individual Company stores, except to a qualified successor, the Company in such cases must pay Wakefern an amount equal to the annual profit contribution shortfall attributable to the sale of a store or change in control. No payments are required if the volume lost by a shareholder as a result of the sale of a store is replaced by such shareholder by increased volume in existing or new stores. A "qualified successor" must be, or agree to become, a member of Wakefern, and may not own or operate any supermarkets, other than ShopRite supermarkets, in the states of New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, Connecticut, Massachusetts, Rhode Island, Vermont, New Hampshire, Maine or the District of Columbia, or own or operate more than 25 non-ShopRite supermarkets in any other locations in the United States.

Wakefern, under circumstances specified in its bylaws, may refuse to sell merchandise to, and may repurchase the Wakefern stock of, any member. Such circumstances include a members bankruptcy filing, certain unapproved transfers by a member of its supermarket business or its capital stock in Wakefern, unapproved acquisition by a member of certain supermarket or grocery wholesale supply businesses, the material breach by a member of any provision of the bylaws of Wakefern or any agreement with Wakefern, or a failure to fulfill financial obligations to Wakefern.



Any material change in Wakefern's method of operation or a termination or material modification of the Company's relationship with Wakefern following termination of the above agreements, or otherwise, might have an adverse impact on the conduct of the Company's business and could involve additional expense for the Company. The failure of any Wakefern member to fulfill its obligations under these agreements or a member's insolvency or withdrawal from Wakefern could result in increased costs to remaining members.

Wakefern does not prescribe geographical franchise areas to its members. The specific locations at which the Company, other members of Wakefern, or Wakefern itself, may open new units under the ShopRite name are, however, subject to the approval of Wakefern's Site Development Committee. This committee is composed of persons who are not employees or members of Wakefern. Committee decisions to deny a site application may be appealed to the Wakefern Board of Directors. Wakefern assists its members in their site selection by providing appropriate demographic data, volume projections and estimates of the impact of the proposed store on existing member supermarkets in the area.

Each of Wakefern's members is required to make capital contributions to Wakefern based on the number of stores operated by that member and the purchases generated by those stores. As additional stores are opened or acquired by a member, additional capital must be contributed by it to Wakefern. The Company's investment in Wakefern and affiliates was \$25,012 at July 26, 2014. The total amount of debt outstanding from all capital pledges to Wakefern is \$1,741 at July 26, 2014. The maximum per store capital contribution increased from \$825 to \$850 in fiscal 2014, resulting in an additional \$657 capital pledge, which was paid in fiscal 2014.

As required by the Wakefern bylaws, the Company's investment in Wakefern is pledged to Wakefern to secure the Company's obligation to Wakefern. In addition, four members of the Sumas family have guaranteed the Company's obligations to Wakefern. These personal guarantees are required of any 5% shareholder of the Company who is active in the operation of the Company. Wakefern does not own any securities of the Company or its subsidiaries. The Company's investment in Wakefern entitles the Company to enough votes to elect one member to the Wakefern Board of Directors due to cumulative voting rights.

## TECHNOLOGY

The Company considers automation and information technology important to its operations and competitive position. Village completed the replacement of its point of sale systems in fiscal 2010 to improve the checkout experience and reduce training costs. Electronic payment options are offered at all checkout locations. In recent years, we have upgraded our communication network, which is used for secure, reliable, high speed processing of electronic payments and transmission of data.

The Company's commitment to advanced point of sale and communication systems enables it to participate in Price Plus, ShopRite's preferred customer program. Customers receive electronic discounts by presenting a scannable Price Plus card. This technology also enables Village to offer continuity programs and focus on target marketing initiatives.

Wakefern and Village have responded to customers increased use of the internet by creating a smart phone app and shoprite.com to provide weekly advertising and other shopping information. On-line shopping is available in twelve store locations with store pick-up and delivery options servicing our current market. Additionally, we have commenced a mobile shopping pilot program at one store that allows in-store shoppers to scan and express pay for their purchases via our smart phone app.

Eighteen stores use self-checkout systems to provide improved customer service, especially during peak periods, and reduce operating costs. RFID readers are installed in all checkout lanes to enable contactless payment options for customers to quicken checkout times. Certain in-store department records are computerized, including the records of all pharmacy departments. In all stores, meat, seafood, delicatessen, and bakery prices are maintained on computer for automatic weighing and pricing.

Village utilizes a computer generated ordering system, which is designed to reduce inventory levels and out of stock conditions, enhance shelf space utilization, and reduce labor costs. This system is also utilized to reduce the cost of taking periodic inventories. The Company utilizes a direct store delivery system, consisting of personal computers and advanced hand held scanners, for product not purchased through Wakefern to provide equivalent cost and retail price control over these products.

Village seeks to design its stores to use energy efficiently, including recycling waste heat generated by refrigeration equipment for heating and other purposes. Most stores utilize computerized energy management systems. The Company installed solar panels on the roof of one store in 2010 and a second store in 2012, reducing both carbon emissions and energy costs.

The Company has installed computer based training systems in all stores to assist in the training of associates. Village utilizes a time and attendance system and labor scheduling system to improve scheduling and reduce labor. Automated cash handling systems are utilized in the store back office to improve accuracy and reduce costs.

Village uses digital surveillance systems that are integrated with the cashier monitoring systems in all stores to aid shrink reduction, increase productivity and assist in accident investigations. These systems include electronic

monitoring of the bottom of carts to reduce shrink.

The Company utilizes a division of Wakefern for data processing services, including financial accounting support.

#### COMPETITION

The supermarket industry is highly competitive and characterized by narrow profit margins. 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, restaurants, dollar stores and convenience stores.

Some of the Company's principal competitors include Pathmark, A&P, Stop & Shop, Acme, Kings, Wal-Mart, Target, Wegmans, Whole Foods, Costco, BJ's, Giant, Safeway and Foodtown. Some of these competitors have financial resources substantially greater than those of the Company, and some are non-union.

## LABOR

As of October 1, 2014, the Company employed approximately 7,050 persons with approximately 75% working part-time. Approximately 91% of the Company's employees are covered by collective bargaining agreements. Contracts with the Company's seven unions expire between December 2014 and October 2018. Approximately 29% of our associates are represented by unions whose contracts expire within one year. Most of the Company's competitors are similarly unionized.

## AVAILABLE INFORMATION

As a member of the Wakefern cooperative, Village relies upon our customer focused website, shoprite.com, for interaction with customers and prospective employees. This website is maintained by Wakefern for the benefit of all ShopRite supermarkets, and therefore, does not contain any financial information related to the Company.

The Company will provide paper copies of the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and press releases free of charge upon request to any shareholder. In addition, electronic copies of these filings can be obtained at sec.gov.

## REGULATORY ENVIRONMENT

The Company's business requires various licenses and the registration of facilities with state and federal health and drug regulatory agencies. These licenses and registration requirements obligate the Company to observe certain rules and regulations, and a violation of these rules and regulations could result in a suspension or revocation of licenses or registrations. In addition, most licenses require periodic renewals. The Company has not experienced material difficulties with respect to obtaining or retaining licenses and registrations.

## ITEM 1A. RISK FACTORS

### COMPETITIVE ENVIRONMENT

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, 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. Competition with these outlets is based on price, store location, promotion, product assortment, quality and service. Some of these competitors have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do. In addition, Village made investments in lower prices to combat nontraditional competitors beginning in the second half of fiscal 2013.

### GEOGRAPHIC CONCENTRATION AND NEW TRADE AREA

The Company's stores are concentrated in New Jersey, with one store in northeastern Pennsylvania and two in Maryland. 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. Further, since our store base is concentrated in densely populated metropolitan areas, opportunities for future store expansion may be limited, which may adversely affect our business and results of operations.

Village acquired two stores in July 2011 in Maryland, a new market for Village where the ShopRite name is less known than in New Jersey. Maryland stores sales, marketing costs and operating performance remain worse than initially projected as we continue to build market share and brand awareness. If these trends continue, the performance of our Maryland stores may negatively impact the Company's results of operations.

#### WAKEFERN RELATIONSHIP

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 effect on Village's results of operations.

## LABOR RELATIONS

Approximately 91% of the Company's employees are covered by collective bargaining agreements with unions. Contracts with the Company's seven unions expire between December 2014 and October 2018. Approximately 29% of our associates are represented by unions whose contracts expire within one year. In future negotiations with labor unions, we expect that rising health care and pension costs, among other issues, will continue to be important topics for negotiation. Upon the expiration of our collective bargaining agreements, work stoppages by the affected workers could occur if we are unable to negotiate acceptable contracts with labor unions. This could significantly disrupt our operations or have an adverse impact on our financial results. Further, if we are unable to control health care and pension costs provided for in the collective bargaining agreement, we may experience increased operating costs and an adverse impact on our results of operations.

## HEALTHCARE LEGISLATION

We provide health benefits to a large number of our employees, primarily through multi-employer health plans. Effective January 1, 2015, the Patient Protection and Affordable Care Act will impose new mandates on employers that could significantly increase the number of employees receiving benefits and our required contributions to these multi-employer health plans. The impact of the law will depend on many factors, including finalization of rules implementing the law, the number of additional employees that we will be required to provide health benefits and the number of eligible employees that enroll for medical benefits, which could be material to our results of operations.

## FOOD SAFETY

The Company could be adversely affected if consumers lose confidence in the safety and quality of the food supply chain. Adverse publicity about these types of concerns, whether or not valid, could discourage consumers from buying our products. 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.

## MULTI-EMPLOYER PENSION PLANS

The Company is required to make contributions to multi-employer pension plans in amounts established under collective bargaining agreements. Pension expense for these plans is recognized as contributions are funded. Benefits generally are based on a fixed amount for each year of service. Based on the most recent information available to us, certain of these multi-employer plans 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 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 and the actual return on assets held in the plans, among other factors. See Note 8 to the Consolidated Financial Statements for more information relating to our participation in multi-employer pension plans.

## IMPAIRMENT OF LONG-LIVED ASSETS

Our long-lived assets, primarily stores, 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.

#### TAXES

The Company's effective tax rate may be impacted by the results of tax examinations and changes in tax laws, including the disputes with the state of New Jersey described in Note 5 to the Consolidated Financial Statements.

#### INFORMATION TECHNOLOGY

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 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, 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.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

#### ITEM 2. PROPERTIES

As of July 26, 2014, Village owns the sites of six of its supermarkets (containing 412,000 square feet of total space), all of which are freestanding stores, except the Egg Harbor store, which is part of a shopping center. The remaining 23 supermarkets (containing 1,288,000 square feet of total space) and the corporate headquarters are leased, with initial lease terms generally ranging from 20 to 30 years, usually with renewal options. Sixteen of these leased stores are located in shopping centers and the remaining seven are freestanding stores. In addition to the above, the Company owns the land and building of the old Washington store, which is currently available for sale.

The annual rent, including capitalized leases, for all of the Company's leased facilities for the year ended July 26, 2014 was approximately \$15,586.

Village is a limited partner in two partnerships, one of which owns a shopping center in which one of our leased stores is located. The Company is also a general partner in a partnership that is a lessor of one of the Company's freestanding stores.

#### ITEM 3. LEGAL PROCEEDINGS

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 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 New Jersey Division of Taxation. The Company is currently in the process of appealing the court's decision. No payments with respect to these matters are required until the dispute is definitively resolved.



The Company recorded a \$10,052 charge to income tax expense in the fiscal quarter ended October 26, 2013, which includes a \$4,933 (net of federal benefit of \$2,656) increase in unrecognized tax benefits and \$5,119 (net of federal benefit of \$2,078) of related interest and penalties for tax positions taken in prior years. This charge increased our beginning of year accrued tax liability to reflect the estimated total tax, interest and penalties due if the Company is unable to overturn the Court's decision upon appeal. It is reasonably possible that this matter will be resolved within the next twelve months. A favorable resolution could result in a reduction in gross unrecognized tax benefits of up to \$28,993. The ultimate resolution of these matters could materially impact our results of operations and cash flows.

Superstorm Sandy devastated our area on October 29, 2012 and resulted in the closure of almost all of our stores for periods of time ranging from a few hours to eight days. Village disposed of substantial amounts of perishable product and also incurred repair, labor and other costs as a result of the storm. The Company has property, casualty and business interruption insurance, subject to deductibles and coverage limits. During fiscal 2013, Wakefern began the process of working with our insurers to recover the damages and Village has recorded estimated insurance recoveries. Net of payments received, the related insurance receivable was \$2,290 at July 26, 2014. In October 2013, Wakefern, as the policy holder, filed suit against the primary carrier seeking payment of remaining claims due for all Wakefern members. The suit is the result of different interpretations of policy terms. Final resolution of our insurance claim related to the storm could have a material impact on our results of operations.

In addition, the Company, in the ordinary course of business, is involved in various legal proceedings. Village does not believe the outcome of these proceedings will have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(All dollar amounts are in thousands, except per share data).

Stock Price and Dividend Information

The Class A common stock of Village Super Market, Inc. is traded on the NASDAQ Global Select Market under the symbol "VLGEA." The table below sets forth the high and low last reported sales price for the fiscal quarter indicated.

2014

High