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FOODARAMA SUPERMARKETS, INC.

Form 10-Q

June 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended: April 29, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-5745-1

FOODARAMA SUPERMARKETS, INC.
(Exact name of Registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

21-0717108
(I.R.S. Employer
Identification No.)

Building 6, Suite 1, 922 Highway 33, Freehold, New Jersey 07728
(Address of principal executive offices)

Telephone #732-462-4700
(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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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

| | |
|----------------|----------------|
| OUTSTANDING AT | |
| CLASS | June 9, 2006 |
| ----- | ----- |
| Common Stock | 988,867 shares |
| \$1 par value | |

FOODARAMA SUPERMARKETS, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Unaudited Consolidated Condensed Balance Sheets
April 29, 2006 and October 29, 2005

Unaudited Consolidated Condensed Statements of Operations for the
thirteen weeks ended April 29, 2006 and April 30, 2005

Unaudited Consolidated Condensed Statements of Operations for the
twenty-six weeks ended April 29, 2006 and April 30, 2005

Unaudited Consolidated Condensed Statements of Cash Flows for the
twenty-six weeks ended April 29, 2006 and April 30, 2005

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Item 6. Exhibits

Disclosure Concerning Forward-Looking Statements

All statements, other than statements of historical fact, included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Foodarama Supermarkets, Inc. (the "Company", which may be referred to as we, us or our) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements contained in this Form 10-Q. Such potential risks and uncertainties include, without limitation, competitive pressures from other supermarket operators, warehouse club stores and discount general merchandise stores, economic conditions in the Company's primary markets, consumer spending patterns, availability of capital, cost of labor, cost of goods sold including increased costs from the Company's cooperative supplier, Wakefern Food Corporation ("Wakefern"), and other risk factors detailed herein and in other of the Company's Securities and Exchange Commission filings. The forward-looking statements are made as of the date of this Form 10-Q and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements.

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PART I. FINANCIAL INFORMATION

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
 Consolidated Condensed Balance Sheets
 (In thousands)

| | April 29, 2006 (Unaudited) | October 29, 2005 (1) |
|--|----------------------------------|----------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,519 | \$ 5,488 |
| Merchandise inventories | 53,338 | 55,889 |
| Receivables and other current assets | 6,987 | 7,597 |
| Prepaid and refundable income taxes | 1,361 | 797 |
| Related party receivables - Wakefern | 7,902 | 14,587 |
| | ----- | ----- |
| | 76,107 | 84,358 |
| | ----- | ----- |
| Property and equipment: | | |
| Land | 308 | 308 |
| Buildings and improvements | 1,220 | 1,220 |
| Leasehold improvements | 60,426 | 61,360 |
| Equipment | 158,771 | 164,238 |
| Property under capital leases | 152,354 | 152,354 |
| Construction in progress | 304 | 199 |
| | ----- | ----- |
| | 373,383 | 379,679 |
| Less accumulated depreciation and amortization | 165,151 | 161,975 |
| | ----- | ----- |
| | 208,232 | 217,704 |
| | ----- | ----- |
| Other assets: | | |
| Investments in related parties | 17,673 | 18,323 |
| Goodwill | 1,715 | 1,715 |
| Intangible assets, net | 1,209 | 1,304 |
| Other | 3,873 | 3,364 |
| Related party receivables - Wakefern | 2,215 | 2,237 |
| Deferred income taxes | 1,735 | -- |
| | ----- | ----- |
| | 28,420 | 26,943 |
| | ----- | ----- |
| | \$312,759 | \$329,005 |
| | ===== | ===== |

(continued)

(1) Derived from the Audited Consolidated Financial Statements for the year ended October 29, 2005.

See accompanying notes to the consolidated condensed financial statements.

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FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
 Consolidated Condensed Balance Sheets
 (In thousands except share data)

| | April 29, 2006 (Unaudited) | October 29, 2005 (1) |
|---|----------------------------------|----------------------------|
| | ----- | ----- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 9,046 | \$ 9,009 |
| Current portion of long-term debt, related party | 725 | 1,026 |
| Current portion of obligations under capital leases | 1,999 | 1,966 |
| Current income taxes payable | -- | -- |
| Deferred income taxes | 1,901 | 2,151 |
| Accounts payable: | | |
| Related party-Wakefern | 38,380 | 40,419 |
| Others | 9,268 | 9,671 |
| Accrued expenses | 14,478 | 13,479 |
| | ----- | ----- |
| | 75,797 | 77,721 |
| | ----- | ----- |
| Long-term debt | 37,449 | 50,912 |
| Long-term debt, related party | 2,462 | 3,185 |
| Obligations under capital leases | 139,548 | 140,540 |
| Deferred income taxes | -- | 175 |
| Other long-term liabilities | 13,659 | 13,577 |
| | ----- | ----- |
| | 193,118 | 208,389 |
| | ----- | ----- |
| Commitments and Contingencies | | |
| Shareholders' equity: | | |
| Common stock, \$1.00 par; authorized 2,500,000 shares; issued 1,621,767 shares; outstanding 988,867 shares | | |
| April 29, 2006; 988,117 shares October 29, 2005 | 1,622 | 1,622 |
| Capital in excess of par | 4,071 | 4,168 |
| Deferred compensation | -- | (242) |
| Retained earnings | 53,104 | 52,315 |
| Accumulated other comprehensive income: | | |
| Minimum pension liability | (2,802) | (2,802) |
| | ----- | ----- |
| | 55,995 | 55,061 |
| Less 632,900 shares April 29, 2006; 633,650 shares October 29, 2005, held in treasury, at cost | 12,151 | 12,166 |
| | ----- | ----- |
| | 43,844 | 42,895 |
| | ----- | ----- |
| | \$ 312,759 | \$ 329,005 |
| | ===== | ===== |

(1) Derived from the Audited Consolidated Financial Statements for the year ended October 29, 2005.

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See accompanying notes to the consolidated condensed financial statements.

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FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
 Consolidated Condensed Statements of Operations - Unaudited
 (In thousands - except share data)

| | 13 Weeks Ended | |
|--|-------------------|-------------------|
| | April 29, 2006 | April 30, 2005 |
| Sales | \$ 297,676 | \$ 292,035 |
| Cost of goods sold | 218,453 | 214,947 |
| Gross profit | 79,223 | 77,088 |
| Selling, general and administrative expenses | 74,509 | 72,394 |
| Earnings from operations | 4,714 | 4,694 |
| Other income (expense): | | |
| Interest expense | (4,487) | (4,637) |
| Interest income | 57 | 31 |
| | (4,430) | (4,606) |
| Earnings before income tax provision | 284 | 88 |
| Income tax provision | (108) | (34) |
| Net income | \$ 176 | \$ 54 |
| Per share information: | | |
| Net income per common share: | | |
| Basic | \$.18 | \$.05 |
| Diluted | \$.17 | \$.05 |
| Weighted average shares outstanding: | | |
| Basic | 988,308 | 987,662 |
| Diluted | 1,047,013 | 1,032,098 |
| Dividends per common share | -0- | -0- |

See accompanying notes to consolidated condensed financial statements.

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FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
 Consolidated Condensed Statements of Operations - Unaudited
 (In thousands - except share data)

| | 26 Weeks Ended | |
|--|-------------------|-------------------|
| | April 29, 2006 | April 30, 2005 |
| Sales | \$ 621,547 | \$ 609,624 |
| Cost of goods sold | 459,441 | 452,429 |
| Gross profit | 162,106 | 157,195 |
| Selling, general and administrative expenses | 151,809 | 147,469 |
| Earnings from operations | 10,297 | 9,726 |
| Other income (expense): | | |
| Interest expense | (9,119) | (9,297) |
| Interest income | 97 | 67 |
| | (9,022) | (9,230) |
| Earnings before income tax provision | 1,275 | 496 |
| Income tax provision | (486) | (189) |
| Net income | \$ 789 | \$ 307 |
| Per share information: | | |
| Net income per common share: | | |
| Basic | \$.80 | \$.31 |
| Diluted | \$.76 | \$.29 |
| Weighted average shares outstanding: | | |
| Basic | 988,213 | 987,638 |
| Diluted | 1,043,681 | 1,033,451 |
| Dividends per common share | -0- | -0- |

See accompanying notes to consolidated condensed financial statements.

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
 Consolidated Condensed Statements of Cash Flows - Unaudited
 (In thousands)

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| | 26 Weeks Ended | |
|--|-------------------|-------------------|
| | April 29, 2006 | April 30, 2005 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 789 | \$ 307 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 10,588 | 10,992 |
| Amortization, intangibles | 95 | 95 |
| Amortization, deferred financing costs | 273 | 380 |
| Amortization, deferred rent escalation | (182) | (161) |
| Provision to value inventory at LIFO | 477 | 428 |
| Deferred income taxes | (2,160) | (1,007) |
| Non-cash compensation expense | 145 | 168 |
| (Increase) decrease in | | |
| Merchandise inventories | 2,074 | 2,328 |
| Receivables and other current assets | 610 | 1,043 |
| Prepaid and refundable income taxes | (564) | (1,079) |
| Other assets | (598) | (575) |
| Related party receivables-Wakefern | 6,707 | 6,847 |
| Increase (decrease) in | | |
| Accounts payable | (2,442) | (6,652) |
| Income taxes payable | -- | (246) |
| Other liabilities | 1,263 | (645) |
| | ----- | ----- |
| | 17,075 | 12,223 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Decrease in construction advance due from landlords | -- | 775 |
| Cash paid for the purchase of property and equipment | (1,515) | (2,127) |
| Proceeds from sale of equipment | 482 | -- |
| Cash paid for construction in progress | (105) | (4) |
| | ----- | ----- |
| | (1,138) | (1,356) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Principal payments under long-term debt | (13,426) | (10,584) |
| Principal payments under capital lease obligations | (959) | (814) |
| Principal payments under long-term debt, related party | (374) | (404) |
| Deferred financing and other costs | (162) | -- |
| Proceeds from exercise of stock options | 15 | 10 |
| | ----- | ----- |
| | (14,906) | (11,792) |
| | ----- | ----- |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,031 | (925) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 5,488 | 6,001 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 6,519 | \$ 5,076 |
| | ===== | ===== |

See accompanying notes to consolidated condensed financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

The unaudited Consolidated Condensed Financial Statements as of or for the period ending April 29, 2006, have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and rule 10-01. The balance sheet at October 29, 2005 has been taken from the audited financial statements at that date. In the opinion of the management of the Company, all adjustments (consisting only of normal recurring accruals) which are considered necessary for a fair presentation of the results of operations for the period have been made. Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The reader is referred to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K and Form 10-K/A for the year ended October 29, 2005.

At both April 29, 2006 and October 29, 2005, approximately 81% of merchandise inventories are valued by the Last-In-First-Out ("LIFO") method of inventory valuation while the balance of inventories is valued by the First-In-First-Out ("FIFO") method. If the FIFO method had been used for the entire inventory, inventories would have been \$5,197,000 and \$4,720,000 higher than reported at April 29, 2006 and October 29, 2005, respectively.

These results are not necessarily indicative of the results for the entire fiscal year.

Note 2 Adoption of New Accounting Standards

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs," in the first quarter of fiscal 2006. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. The adoption of this standard did not have any impact on our financial statements.

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), effective October 30, 2005. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair value. Pro forma disclosure is no longer an alternative. The adoption of this standard increased earnings from operations by \$127,000, increased net income by approximately \$79,000, net of tax, and increased basic and diluted earnings per share by \$.08 for the 26 weeks ended April 29, 2006. This represents the difference in expense recognition between SFAS 123(R) and the previous method for accounting for stock options under APB 25 and is due to the difference in treatment of recognition of forfeitures (See Note 3). There was no impact on earnings in the 13 weeks ended April 29, 2006 due to the adoption of this standard.

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Note 3 Stock-Based Compensation

The Company maintains a stock option plan (the "2001 Plan") for the issuance of up to 215,000 shares of common stock under stock options.

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Effective October 30, 2005, the Company adopted SFAS 123(R), "Share-Based Payment." SFAS 123(R) replaces SFAS 123 "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under SFAS 123(R), the pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition.

The Company has selected the Black-Scholes method of valuation for share-based compensation and has adopted the modified prospective transition method under SFAS 123(R), which requires that compensation cost be recorded, as earned, for all unvested stock options outstanding at the beginning of the first quarter of adoption of SFAS 123(R). As permitted by SFAS 123(R), prior periods have not been restated. The charge is generally recognized as non-cash compensation on a straight-line basis over the remaining service period after the adoption date based on the options' original estimate of fair value. Due to the Going Private Transaction (See Note 5), all unvested stock options vested immediately. Therefore, the recognition of the remaining stock option expense was accelerated and recognized in the 13 weeks ended January 28, 2006. The non-cash compensation expense for the 13 and 26 weeks ended April 29, 2006 was \$0 and \$115,000, respectively.

Prior to the adoption of SFAS 123(R), the Company applied the intrinsic-value-based method of accounting prescribed by APB 25 and related interpretations, to account for its fixed-plan stock options to employees. Under this method, compensation cost was recorded only if the market price of the underlying stock on the date of grant exceeded the exercise price. As permitted by SFAS 123, the Company elected to continue to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS 123. The fair-value-based method used to determine historical pro forma amounts under SFAS 123 was similar in most respects to the method used to determine stock-based compensation expense under SFAS 123(R). However, in its pro forma disclosures, the Company accounted for option forfeitures as they occurred, rather than based on estimates of future forfeitures.

In connection with the adoption and provisions of SFAS 123(R), the Company reversed the deferred compensation balance of \$242,000, resulting from the application of the intrinsic-value-based method of accounting for stock options, at October 30, 2005 against Capital In Excess of Par. This expense is now superseded by the SFAS 123(R) expense, which was recorded over the vesting period of the stock options.

The following table illustrates the pro forma effect on the Company's net income and earnings per share as if the Company had adopted the fair-value-based method of accounting for stock-based compensation under SFAS 123 for the 13 and 26 weeks ended April 30, 2005:

| Thirteen Weeks Ended | Twenty-Six We Ended |
|---|------------------------------------|
| (In thousands, except per share amounts) | (In thousands, exc share amount |
| April 30, | April 30, |

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| | 2005 | 2005 |
|--|--------|-------|
| Net income - as reported | \$ 54 | \$ 30 |
| Add: | | |
| Stock-based employee compensation expense determined under the intrinsic value method, included in reported net income, net of related tax effects | 52 | 10 |
| Deduct: | | |
| Adjustment to total stock-based employee compensation expense determined under the fair value based method, net of related tax effects | (71) | (14) |
| Pro forma net income | \$ 35 | \$ 26 |
| Earnings per share: | | |
| Basic, as reported | \$.05 | \$.3 |
| Basic, pro forma | \$.04 | \$.2 |
| Diluted, as reported | \$.05 | \$.2 |
| Diluted, pro forma | \$.03 | \$.2 |

There were no stock options granted during the 26 weeks ended April 29, 2006 or April 30, 2005. The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used for the grants made under the 2001 Plan:

| | |
|-------------------------|---------|
| Risk-free interest rate | 5.00% |
| Expected option life | 5 years |
| Dividend yield | None |
| Volatility | 40.2% |

As of April 29, 2006, 94,000 options are exercisable. The weighted average exercise price of all outstanding options is \$19.60.

On January 23, 2006, the Company extended the term (the "Extension") of 40,000 options, which were set to expire on January 27, 2006, to December 27, 2006. The Extension resulted in additional non-cash compensation expense of \$30,000, which was fully expensed in the 13 weeks ended January 28, 2006. This expense reduced net income, net of tax, by \$0 and \$19,000 for the 13 and 26 weeks ended April 29, 2006.

Note 4 Employee Benefit Plans

The following tables summarize the components of the net periodic pension expense for the Company sponsored defined benefit pension plans (both funded and

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unfunded postretirement plans) for the 13 and 26 weeks ended April 29, 2006 and April 30, 2005 (in thousands):

Components of Net Periodic Benefit Cost:

| Pension Plans ----- | 13 Weeks Ended ----- | | 26 Weeks ----- |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| | April 29, 2006 ----- | April 30, 2005 ----- | April 29, 2006 ----- |
| Service cost | \$ 166 | \$ 123 | \$ 332 |
| Interest cost | 135 | 132 | 270 |
| Expected return on plan assets | (145) | (134) | (290) |
| Settlement (gain) loss recognized | -- | -- | -- |
| Amortization of prior service cost | 16 | 11 | 32 |
| Recognized net actuarial loss | 81 | 95 | 162 |
| | ----- | ----- | ----- |
| Net periodic benefit cost | \$ 253 ===== | \$ 227 ===== | \$ 506 ===== |

| Other Postretirement Plan ----- | 13 Weeks Ended ----- | | 26 Wee ----- |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| | April 29, 2006 ----- | April 30, 2005 ----- | April 29, 2006 ----- |
| Service cost | \$ 46 | \$ 46 | \$ 92 |
| Interest cost | 83 | 83 | 166 |
| Amortization of prior service cost | 7 | 21 | 14 |
| Recognized net actuarial loss | 23 | 46 | 46 |
| | ----- | ----- | ----- |
| Net periodic benefit cost | \$ 159 ===== | \$ 196 ===== | \$ 318 ===== |

As previously disclosed in the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K and 10-K/A for the year ended October 29, 2005 the Company's current funding policy for its qualified pension plans is to contribute annually the amount required by regulatory authorities to meet minimum funding requirements. The Company presently anticipates contributing approximately \$1,530,000 to its pension plans during fiscal 2006. This amount is based on preliminary information and the actual amount contributed will be determined based on the final actuarial calculations, plan asset performance, possible changes in law and other factors. The Company has contributed \$629,000 during the twenty-six weeks ended April 29, 2006, and anticipates contributing approximately \$901,000 more for expected future benefit payments during the remainder of fiscal 2006.

Since the Company's Other Post Retirement Plan is unfunded, the contributions to this plan are equal to the benefit payments made during the year. Benefit payments made during the 26 weeks ended April 29, 2006 were \$84,000.

Note 5 Going Private Transaction

As reported in the Company's current report on Form 8-K filed on March 3, 2006 with the Securities and Exchange Commission ("SEC"), the Company has entered

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into a definitive agreement with respect to the going private transaction previously proposed by Saker Holdings Corp. Under the terms of the definitive agreement, Saker Holdings Corp. has agreed to make a cash tender offer for the Company's outstanding common stock at a price of \$53 per share and the Special Committee of the Company's Board of Directors appointed to review the proposed transaction has recommended that the Company's shareholders accept the offer and tender their shares to Saker Holdings Corp. For the thirteen and twenty-six weeks ended April 29, 2006, the Company incurred approximately \$298,000 and \$665,000, respectively, of transaction costs related to the going private transaction, which are included in selling, general and administrative expenses. The Company is required to pay Saker Holdings Corp. a termination fee of \$1,500,000 if the Special Committee withdraws its recommendation that the shareholders accept the offer or the Company's Board of Directors approves or recommends another takeover proposal, or if the Company breaches or terminates the agreement for any reason other than Saker Holdings Corp.'s breach. In addition, the Company will be required to reimburse Saker Holdings Corp. for certain out of pocket expenses if the agreement is terminated under certain other circumstances.

The tender offer for outstanding shares of the Company's common stock described in this Quarterly Report on Form 10-Q has not commenced. The description of the tender offer set forth in this report is for informational purposes only and is neither an offer to purchase nor a solicitation of an offer to sell securities. At the time the tender offer is commenced, Saker Holdings Corp. will file a tender offer statement with the SEC, and the Company will file a solicitation and recommendation statement with respect to the tender offer. The tender offer statement (including an offer to purchase, a related letter of transmittal and other offer documents) and the solicitation/recommendation statement will contain important information that should be read carefully before any decision is made with respect to the tender offer. Those materials will be made available to the Company's shareholders at no expense to them. In addition, all of those materials (and all other offer documents filed with the SEC) will be available at no charge on the SEC's web site (www.sec.gov) and from the Company.

Part I - Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We operate a chain of 26 ShopRite supermarkets in Central New Jersey. In the first quarter of fiscal 2006 we closed one location in Edison, New Jersey. We believe it is important to maintain a modern, one stop competitive shopping environment for our customers and therefore have invested heavily in new, expanded and remodeled facilities. We have incorporated upscale service departments in our World Class supermarket concept. We are the largest member of Wakefern, the largest retailer owned food cooperative warehouse in the United States. Since we purchase from Wakefern most of the product we sell, participate in advertising, supply, insurance and technology programs with Wakefern, and receive 13.6% of Wakefern's patronage dividend, our success is integrally tied to the success of Wakefern.

We operate in a highly competitive geographic area. Certain of our competitors are non-union and therefore may have lower labor and related fringe benefit costs. In the past six years a non-union competitor, Wegmans, has opened five stores in our trading area. We expect Wegmans to continue to open additional locations in our marketing area in the future. Additionally, another non-union operator, Wal-Mart, is expected to open Super Centers, which include extensive food operations, in our trading area.

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Certain categories of selling, general and administrative expenses have increased disproportionately in comparison to our sales growth and to inflation in the last three years. We have experienced substantial increases in employee health and pension costs under union contracts and for non-union associates. Additionally, the cost of utilities to operate our stores increased dramatically in the last two years. These trends have continued in fiscal 2006.

We look at a variety of indicators to evaluate our performance, such as same store sales; sales per store; sales per selling square foot; percentage of total sales by department; shrink by department and store; departmental gross profit margins; sales per man hour; hourly labor rates; and percent of overtime.

Critical Accounting Policies and Estimates

Critical accounting policies are those accounting policies that management believes are important to the portrayal of the Company's financial condition and results and 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The Company's critical accounting policies relating to the impairment of goodwill, inventory valuation, patronage dividends earned as a stockholder of Wakefern, pension plans and other postretirement benefits, workers' compensation insurance and long-lived assets are described in the Company's Annual Report on Form 10-K and 10-K/A for the year ended October 29, 2005. As of April 29, 2006 there have been no material changes to any of the critical accounting policies contained therein.

Financial Condition and Liquidity

The Company is a party to a Third Amended and Restated Revolving Credit and Term Loan Agreement (the "Credit Agreement") with four financial institutions. The Credit Agreement serves as our primary funding source for working capital and capital expenditures. The Credit Agreement is secured by substantially all of the Company's assets and provided for a total commitment of up to \$80,000,000, including a revolving credit facility (the "Revolving Note") of up to \$35,000,000, a term loan ("the Term Loan") in the amount of \$25,000,000 and a capital expenditures facility (the "Capex Facility") of up to \$20,000,000. As of April 29, 2006 the Company owed \$18,996,977 on the Revolving Note, \$7,500,000 on the Term Loan and \$15,963,750 under the Capex Facility.

The Company's compliance with the major financial covenants under the Credit Agreement was as follows as of April 29, 2006:

| Financial Covenant | Credit Agreement | Actual (As defined in the Credit Agreement) |
|------------------------------------|---------------------------|---|
| Adjusted EBITDA (1) | Greater than \$26,000,000 | \$ 27,542,000 |
| Leverage Ratio (1)(2) | Less than 2.5 to 1.00 | 1.80 to 1.00 |
| Debt Service Coverage Ratio (3) | Greater than 1.10 to 1.00 | 1.38 to 1.00 |

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| | | | |
|---------------------|--------------------------------|----|---------------|
| Adjusted Capex (4) | Less than \$7,299,000 (5) (7) | \$ | 1,515,000 (6) |
| Store Project Capex | Less than \$40,018,000 (5) (7) | \$ | 105,000 (6) |

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- (1) Excludes obligations under capitalized leases, interest expense and depreciation expense attributable to capitalized leases, non-cash write downs and changes in the LIFO reserve.
- (2) The Leverage Ratio is calculated by dividing the current and non-current portions of Long-Term Debt and Long-Term Debt Related Party by Adjusted EBITDA.
- (3) The Debt Service Coverage Ratio is calculated by dividing Operating Cash Flow by the sum of adjusted net interest expense, which excludes interest on capitalized leases, the current provision for income taxes and regularly scheduled principal payments, which exclude principal payments on capitalized leases. Operating Cash Flow is calculated by subtracting amounts expended for property and equipment for projects involving the expenditure of less than \$500,000 (\$1,515,000 in the first six months of fiscal 2006) from Adjusted EBITDA.
- (4) Adjusted Capex is all capital expenditures other than New/Replacement Store Project Capex.
- (5) Represents limitations on capital expenditures for fiscal 2006. For fiscal 2006 the Company has budgeted \$8,649,000 for capital expenditures. Any unused amounts available under the Credit Agreement will be carried forward to future periods.
- (6) Represents capital expenditures for fiscal 2006.
- (7) Includes amounts available but not used in the prior fiscal year and available to be carried forward to fiscal 2006: \$399,000 for Adjusted Capex and \$26,018,000 for Store Project Capex.

No cash dividends have been paid on the Common Stock since 1979, and the Company has no present intentions or ability to pay any dividends in the near future on its Common Stock. The Credit Agreement does not permit the payment of any cash dividends on our Common Stock.

Working Capital

At April 29, 2006, the Company had working capital of \$310,000 as compared to \$6,637,000 at October 29, 2005 and \$150,000 at April 30, 2005. Since the end of fiscal 2005, working capital declined primarily as a result of the collection of related party receivables from Wakefern related to the fiscal 2005 patronage dividend receivable. The decrease in inventory which resulted from the closing of a location in Edison, New Jersey was offset by a corresponding decrease in accounts payable. These transactions resulted in a net decrease in the Revolving Note which is classified as long-term borrowings.

The Company normally requires small amounts of working capital since inventory is generally sold at approximately the same time that payments to Wakefern and other suppliers are due and most sales are for cash or cash equivalents.

Working capital ratios were as follows:

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| | |
|------------------|-------------|
| April 29, 2006 | 1.00 to 1.0 |
| October 29, 2005 | 1.09 to 1.0 |
| April 30, 2005 | 1.00 to 1.0 |

Cash flows (in millions) were as follows:

| | Twenty-Six Weeks Ended | |
|----------------------|------------------------|----------------|
| | April 29, 2006 | April 30, 2005 |
| Operating activities | \$ 17.1 | \$ 12.2 |
| Investing activities | (1.2) | (1.3) |
| Financing activities | (14.9) | (11.8) |
| Totals | \$ 1.0 | \$ (.9) |

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The Company had \$12,638,000 of available credit, at April 29, 2006, under its revolving credit facility. The availability does not include the additional \$2,371,000 provided by the August 22, 2005 amendment to the Credit Agreement which allows the inclusion of cash in transit as additional collateral. The Company has no capital commitments for leasehold improvements or equipment as of April 29, 2006. The amounts available under the Credit Agreement will adequately meet our operating needs, scheduled capital expenditures and debt service for fiscal 2006.

For the 26 weeks ended April 29, 2006 depreciation was \$10,588,000 while capital expenditures, excluding capitalized leases, totaled \$1,620,000, compared to \$10,992,000 and \$2,131,000, respectively, in the prior year period. The decrease in depreciation was the result of the completion of depreciation for some older equipment and leasehold improvements. Capital expenditures decreased in the first six months of fiscal 2006 when no major projects were in process as compared to capital expenditures in the first six months of fiscal 2005 when the store in West Long Branch, New Jersey was remodeled and the remodeling of the Neptune, New Jersey location was substantially completed.

The following table summarizes our contractual obligations at April 29, 2006, and the effect such obligations are expected to have on liquidity and cash flow in future periods.

| Contractual Obligations | Total | Payments Due By Period | | | After 5 Years |
|---|-----------|------------------------|--------------|--------------|------------------|
| | | Less Than 1 Year | 2-3 Years | 4-5 Years | |
| | | | | | |
| | | (Dollars In Thousands) | | | |
| Long-term debt | \$ 46,495 | \$ 9,046 | \$36,935 | \$ 514 | \$ -- |
| Interest on long-term debt (1) | 6,347 | 3,622 | 2,711 | 14 | -- |
| Related party debt, non interest bearing | 3,187 | 725 | 1,159 | 1,043 | 260 |
| Capital lease obligations (2) | 330,465 | 15,788 | 31,405 | 32,416 | 250,856 |
| Operating leases (2) | 51,127 | 7,966 | 13,600 | 8,846 | 20,715 |
| Other liabilities (3) | 4,638 | 1,249 | 762 | 1,600 | 1,027 |
| Purchase obligations - | | | | | |

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| | | | | | |
|--|-----------|----------|----------|----------|-----------|
| leaseholds and equipment | -- | -- | -- | -- | -- |
| Lease commitments - stores under construction | -- | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$442,259 | \$38,396 | \$86,572 | \$44,433 | \$272,858 |
| | ===== | ===== | ===== | ===== | ===== |

- (1) Includes interest expense at estimated interest rates of 9.00% to 9.50% on variable rate debt of \$42,461 and interest expense at interest rates of 6.20% to 6.44% on fixed rate debt of \$4,034.
- (2) Lease obligation figures do not include insurance, common area maintenance charges and real estate taxes for which the Company is obligated.
- (3) Other liabilities include estimated unfunded pension liabilities, and estimated post-retirement and post-employment obligations based on available actuarial data.

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Results of Operations (13 weeks ended April 29, 2006 compared to 13 weeks ended April 30, 2005)

Sales:

Sales for the current period totaled \$297.7 million as compared to \$292.0 million in the prior year period. This represents an increase of 1.9%. Sales for the current quarter included the operations of the location in Pennington, New Jersey purchased from Wakefern in September 2005. In November 2005, a location in Edison, New Jersey was closed at the end of its lease term.

Same store sales from the twenty five stores in operation in both periods increased 2.9%. Comparable store sales increases were partially offset by decreased sales in certain of the Company's stores affected by competitive store openings.

Gross Profit:

Gross profit as a percent of sales increased to 26.6% in the second quarter of fiscal 2006 compared to 26.4% for the comparable period in fiscal 2005. Cost of goods sold includes the costs of inventory sold and the related purchase, inbound freight and distribution costs including those costs charged by Wakefern for operation of warehouses, distribution and delivery of product to our stores. Vendor allowances and rebates and Wakefern patronage dividends are reflected as a reduction of cost of goods sold. Any costs to us related to other services which Wakefern provides are not included in cost of goods sold.

Patronage dividends, applied as a reduction of the cost of goods sold, were \$2.5 million in the current year period compared to \$2.3 million in the prior year period.

The increase in gross profit was the result of a reduction in the cost of programs implemented in certain of the Company's stores to address competitive store openings (.20%), reduced Wakefern assessment as a percentage of sales (.04%) and an increase in the projected Wakefern patronage dividend (.03%), partially offset by less favorable product mix (.06%).

Operating Expenses:

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Selling, general and administrative expenses totaled \$74.5 million in the second quarter of fiscal 2006 compared to \$72.4 million for the comparable period in fiscal 2005. Selling, general and administrative expenses as a percent of sales were 25.0% versus 24.8% in the prior year period. Increases in labor, fringe benefits, supplies, miscellaneous expense, administration and a decrease in miscellaneous income were partially offset by decreases in depreciation and occupancy costs. The increase in labor expense was due to an increase in labor rates. Labor expense increased from \$29,488,000 to \$30,263,000. The increase in fringe benefits was the result of contractual increases in pension and welfare contributions. Fringe benefits increased from \$12,723,000 to \$13,194,000. Supply expense increased as the result of increases in the price of plastic. Supply expense increased from \$3,187,000 to \$3,418,000. The increase in miscellaneous expense was primarily the result of increases in Wakefern support services, debit/credit card and bank service fees and services provided by outside vendors, including floor care and sanitation.

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Miscellaneous expense increased from \$4,926,000 to \$5,398,000. The increase in administration was the result of the incurrence of costs related to the going private transaction and an increase in the incentive compensation accrual for administrative personnel based upon operating results for the current quarter. Administration costs increased from \$4,609,000 to \$5,044,000. The decrease in miscellaneous income was due to decreased baling income. Miscellaneous income decreased from \$815,000 to \$608,000. Depreciation decreased due to the completion of depreciation for some older equipment and leasehold improvements. Depreciation expense decreased from \$5,598,000 to \$5,277,000. Occupancy decreased due to lower costs in the Pennington, New Jersey location purchased in September 2005, the closing of the Edison, New Jersey location in November 2005 and lower repair and insurance costs, partially offset by increased utility costs. Occupancy decreased from \$10,385,000 to \$10,180,000.

As a percentage of sales, labor increased .07%, fringe benefits increased .07%, supplies increased .06%, miscellaneous expense increased .12%, administration increased .11% and miscellaneous income decreased .08%. These increases were partially offset by a decrease in occupancy of .14%, and a decrease in depreciation, including depreciation on capitalized leases, of .11%.

Interest Expense:

Interest expense decreased to \$4,487,000 from \$4,637,000, while interest income was \$57,000 compared to \$31,000 for the prior year period. The decrease in interest expense for the current year period was due to a net decrease in average outstanding debt, including capitalized lease obligations, partially offset by an increase in the average interest rate paid on debt.

Income Taxes:

An income tax rate of 38% has been used in both the current and the prior year periods. The tax rate used is based on the expected effective tax rates.

Net Income:

Net income was \$176,000 in the current year period compared to \$54,000 in the prior year period. Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the current period were \$10,090,000 as compared to \$10,295,000 in the prior year period. Net income per common share on a diluted basis was \$.17 in the current year period compared to \$.05 in the prior year period. Per share calculations are based on 1,047,013 weighted average diluted shares outstanding in the current year period and 1,032,098 weighted average

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diluted shares outstanding in the prior year period.

EBITDA is presented because management believes that EBITDA is a useful supplement to net income and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's performance and ability to meet its future debt service requirements, fund capital expenditures and meet working capital requirements. EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to (i) net income (or any other measure of performance under generally accepted accounting principles) as a measure of performance or (ii) cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles reported net income to EBITDA:

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| | Thirteen Weeks Ended | |
|-----------------------|----------------------|----------------|
| | April 29, 2006 | April 30, 2005 |
| | ----- | ----- |
| Net income | \$ 176,000 | \$ 54,000 |
| Add: | | |
| Interest expense, net | 4,430,000 | 4,606,000 |
| Income tax provision | 108,000 | 34,000 |
| Depreciation | 5,277,000 | 5,498,000 |
| Amortization | 99,000 | 103,000 |
| | ----- | ----- |
| EBITDA | \$10,090,000 | \$10,295,000 |
| | ===== | ===== |

Results of Operations (26 weeks ended April 29, 2006 compared to 26 weeks ended April 30, 2005)

Sales:

Sales for the current twenty-six week period totaled \$621.5 million as compared to \$609.6 million in the prior year period. This represents an increase of 2.0%. Sales for the current twenty-six week period included the operations of the location in Pennington, New Jersey purchased from Wakefern in September 2005. In November 2005, a location in Edison, New Jersey was closed at the end of its lease term.

Same store sales from the twenty-five stores in operation in both periods increased 2.6%. Comparable store sales increases were partially offset by decreased sales in certain of the Company's stores affected by competitive store openings.

Gross Profit:

Gross profit as a percent of sales increased to 26.1% in the first twenty-six weeks of fiscal 2006 compared to 25.8% for the comparable period in fiscal 2005. Cost of goods sold includes the costs of inventory sold and the related purchase, inbound freight and distribution costs including those costs charged by Wakefern for operation of warehouses, distribution and delivery of product to our stores. Vendor allowances and rebates and Wakefern patronage dividends are reflected as a reduction of cost of goods sold. Any costs to us related to other services which Wakefern provides are not included in cost of goods sold.

Patronage dividends, applied as a reduction of the cost of goods sold, were \$5.1

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million in the current period compared to \$4.8 million in the prior year period.

The increase in gross profit was the result of a reduction in the cost of programs implemented in certain of the Company's stores to address competitive store openings (.12%), the contribution of the new location purchased from Wakefern in September 2005, including Wakefern incentive programs for new locations (.05%), reduced Wakefern assessment as a percentage of sales (.04%), an increase in the projected Wakefern patronage dividend (.03%) and a decrease in shrink (.11%), partially offset by less favorable product mix (.06%). Shrink is the difference between expected gross profit, based on the difference between the cost and expected selling price of merchandise purchased, and actual gross profit. Shrink results from theft, spoilage, breakage, mark ups and mark downs.

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Operating Expenses:

Selling, general and administrative expenses totaled \$151.8 million in the first twenty-six weeks of fiscal 2006 compared to \$147.5 million for the comparable period in fiscal 2005. Selling, general and administrative expenses as a percent of sales were 24.4% versus 24.2% in the prior year period. Increases in fringe benefits, supplies, miscellaneous expense, administration and a decrease in miscellaneous income were partially offset by decreases in labor, depreciation and occupancy costs. The increase in fringe benefits was the result of contractual increases in pension and welfare contributions. Fringe benefits increased from \$26,456,000 to \$27,641,000. Supply expense increased as the result of increases in the price of plastic. Supply expense increased from \$6,617,000 to \$7,005,000. The increase in miscellaneous expense was primarily the result of increases in Wakefern support services, debit/credit card and bank service fees and services provided by outside vendors, including floor care and sanitation. Miscellaneous expense increased from \$9,870,000 to \$10,828,000. The increase in administration was the result of the incurrence of costs related to the going private transaction and an increase in the incentive compensation accrual for administrative personnel based upon operating results for the current quarter. Administration costs increased from \$9,385,000 to \$10,288,000. The decrease in miscellaneous income was due to decreased baling income. Miscellaneous income decreased from \$1,593,000 to \$1,268,000. Although labor decreased as a percent of sales, labor expense increased from \$60,354,000 to \$61,240,000. The decrease in labor as a percent of sales was due to the percentage increase in same store sales and the increase in labor expense was due to an increase in labor rates. Depreciation decreased due to the completion of depreciation for some older equipment and leasehold improvements. Depreciation expense decreased from \$10,992,000 to \$10,588,000. Although occupancy decreased as a percent of sales, occupancy costs increased from \$20,455,000 to \$20,567,000. The decrease in occupancy as a percent of sales was due to lower costs in the Pennington, New Jersey location purchased in September 2005, the closing of the Edison, New Jersey location in November 2005 and lower repair and insurance costs partially offset by increased utility costs, with all costs being calculated against a higher sales base. Absolute dollars increased slightly for this category.

As a percentage of sales, fringe benefits increased .11%, supplies increased .04%, miscellaneous expense increased .12%, administration increased .12% and miscellaneous income decreased .06%. These increases were partially offset by a decrease in labor of .05%, a decrease in occupancy of .05%, and a decrease in depreciation, including depreciation on capitalized leases, of .09%.

Interest Expense:

Interest expense decreased to \$9,119,000 from \$9,297,000, while interest income

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was \$97,000 compared to \$67,000 for the prior year period. The decrease in interest expense for the current year period was due to a net decrease in average outstanding debt, including capitalized lease obligations, partially offset by an increase in the average interest rate paid on debt.

Income Taxes:

An income tax rate of 38% has been used in both the current and the prior year periods. The tax rate used is based on the expected effective tax rates.

Net Income:

Net income was \$789,000 in the current year period compared to \$307,000 in the prior year period. Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the current period were \$21,071,000 as compared to \$21,032,000 in the prior year period. Net income per common share on a diluted basis was \$.76 in the current period compared to \$.29 in the prior year period. Per share

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calculations are based on 1,043,681 weighted average diluted shares outstanding in the current period and 1,033,451 weighted average diluted shares outstanding in the prior year period.

EBITDA is presented because management believes that EBITDA is a useful supplement to net income and other measurements under accounting principles generally accepted in the United States since it is a meaningful measure of a company's performance and ability to meet its future debt service requirements, fund capital expenditures and meet working capital requirements. EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States and should not be considered as an alternative to (i) net income (or any other measure of performance under generally accepted accounting principles) as a measure of performance or (ii) cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. The following table reconciles reported net income to EBITDA:

| | Twenty-Six Weeks Ended | |
|-----------------------|------------------------|----------------|
| | April 29, 2006 | April 30, 2005 |
| Net income | \$ 789,000 | \$ 307,000 |
| Add: | | |
| Interest expense, net | 9,022,000 | 9,230,000 |
| Income tax provision | 486,000 | 189,000 |
| Depreciation | 10,588,000 | 10,992,000 |
| Amortization | 186,000 | 314,000 |
| | ----- | ----- |
| EBITDA | \$21,071,000 | \$21,032,000 |
| | ===== | ===== |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Except for indebtedness under the Credit Agreement, which is variable rate financing, the balance of our indebtedness is fixed rate financing. We believe that our exposure to market risk relating to interest rate risk is not material. The Company believes that its business operations are not exposed to market risk

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relating to foreign currency exchange risk, commodity price risk or equity price risk.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this quarterly report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer, who concluded that the Company's disclosure controls and procedures are effective. Both the Company's Director of Internal Audit and Principal Accounting Officer also participated in this evaluation. During the Company's last fiscal quarter, there has been no significant change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that 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

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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.

PART II OTHER INFORMATION

Item 6. Exhibits

Exhibit 31.1 Section 302 Certification of Chief Executive Officer

Exhibit 31.2 Section 302 Certification of Chief Financial Officer

Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350

Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOODARAMA SUPERMARKETS, INC.

(Registrant)

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Date: June 9, 2006

/S/ MICHAEL SHAPIRO

(Signature)

Michael Shapiro
Senior Vice President,
Chief Financial Officer

Date: June 9, 2006

/S/ THOMAS H. FLYNN

(Signature)

Thomas H. Flynn
Vice President,
Principal Accounting Officer